

Affiliate Billings to SWEPCo
Payroll by affiliate by FERC Account
For The Adjusted Test Year

Affiliate	FERC Account	Per Books	Proforma Adjustments	Adjusted Test Year
AEP Energy Partners, Inc	9200 - Administrative & Gen Salaries	103,689	(103,689)	0
AEP Energy, Inc	9200 - Administrative & Gen Salaries	2,477	(2,477)	0
AEP Generation Resources	9200 - Administrative & Gen Salaries	12,623	(12,623)	0
AEP Oklahoma Transmission Company, Inc	1070 - Construction Work In Progress	4,624		4,624
AEP OnSite Partners, LLC	9200 - Administrative & Gen Salaries	6,124	(6,124)	0
AEP Service Corporation	1070 - Construction Work In Progress	33,239,297		33,239,297
AEP Service Corporation	1080 - Accum Prov for Deprec of Plant	210,160		210,160
AEP Service Corporation	1510 - Fuel Stock	339,592		339,592
AEP Service Corporation	1520 - Fuel Stock Exp Undistributed	1,624,510		1,624,510
AEP Service Corporation	1630 - Stores Expense Undistributed	4,805,654		4,805,654
AEP Service Corporation	1830 - Prelimin Surv&Investgtn Chrgs	289,886		289,886
AEP Service Corporation	1840 - Clearing Accounts	90,382		90,382
AEP Service Corporation	1860 - MDD-Internal Billing Only	555,906		555,906
AEP Service Corporation	1880 - R&D Expenses	275,232		275,232
AEP Service Corporation	4010 - Operation Expense	0		0
AEP Service Corporation	4210 - Misc Non-Operating Income	797		797
AEP Service Corporation	4264 - Civic & Political Activities	239,959		239,959
AEP Service Corporation	4265 - Other Deductions	532		532
AEP Service Corporation	5000 - Oper Supervision & Engineering	11,657,589	(621,415)	11,036,174
AEP Service Corporation	5010 - Fuel	690,541	(39,806)	650,735
AEP Service Corporation	5020 - Steam Expenses	164,702	(11,651)	153,050
AEP Service Corporation	5050 - Electric Expenses	3,888	(131)	3,757
AEP Service Corporation	5060 - Misc Steam Power Expenses	(578,160)	774,718	196,557
AEP Service Corporation	5100 - Maint Supv & Engineering	340,857	(17,447)	323,410
AEP Service Corporation	5110 - Maintenance of Structures	553,554	(16,940)	536,614
AEP Service Corporation	5120 - Maintenance of Boiler Plant	1,396,098	(127,354)	1,268,743
AEP Service Corporation	5130 - Maintenance of Electric Plant	376,725	(31,009)	345,716
AEP Service Corporation	5140 - Maintenance of Misc Steam Plt	107,279	(1,849)	105,430
AEP Service Corporation	5170 - Oper Supervision & Engineering	(20)	20	0
AEP Service Corporation	5240 - Misc Nuclear Power Expenses	(80)	80	0
AEP Service Corporation	5280 - Maint Supv & Engineering	5,459	(5,202)	257
AEP Service Corporation	5290 - Maintenance of Structures	332	(323)	9
AEP Service Corporation	5300 - Maint of Reactor Plant Equip	19	(4)	14
AEP Service Corporation	5310 - Maintenance of Electric Plant	255	(255)	0
AEP Service Corporation	5350 - Oper Supervision & Engineering	4,487	(4,271)	217
AEP Service Corporation	5370 - Hydraulic Expenses	1,092	(1,071)	22
AEP Service Corporation	5390 - Misc Hydr Power Generation Exp	4,786	(4,641)	145
AEP Service Corporation	5420 - Maintenance of Structures	306	(306)	0
AEP Service Corporation	5430 - Maint Rsvrs, Dams & Wtrways	(59)	59	0
AEP Service Corporation	5440 - Maintenance of Electric Plant	(547)	547	0
AEP Service Corporation	5450 - Maint of Misc Hydraulic Plant	931	(832)	99
AEP Service Corporation	5460 - Oper Supervision & Engineering	(556)		(556)
AEP Service Corporation	5470 - Fuel	(118)		(118)
AEP Service Corporation	5490 - Misc Other Pwr Generation Exp	251		251
AEP Service Corporation	5510 - Maint Supv & Engineering	(15)	2	(13)
AEP Service Corporation	5530 - Maintenance of Generating Plt	11,806	(745)	11,061
AEP Service Corporation	5550 - Purchased Power	(3)		(3)
AEP Service Corporation	5560 - Sys Control & Load Dispatching	1,373,692	(79,430)	1,294,262
AEP Service Corporation	5570 - Other Expenses	3,096,825	(215,368)	2,881,457
AEP Service Corporation	5600 - Oper Supervision & Engineering	5,791,534	(340,637)	5,450,897
AEP Service Corporation	5612 - Load Dispatch-Mnt&Op TransSys	894,592	(37,037)	857,555
AEP Service Corporation	5615 - Reliability, Plng&Stds Develop	211,584	(9,419)	202,164
AEP Service Corporation	5620 - Station Expenses	6,491	(739)	5,752
AEP Service Corporation	5630 - Overhead Line Expenses	17,398	(818)	16,580
AEP Service Corporation	5640 - Underground Line Expenses	(19)	19	0
AEP Service Corporation	5660 - Misc Transmission Expenses	1,360,871	(135,657)	1,225,214
AEP Service Corporation	5670 - Rents	112	(1)	111
AEP Service Corporation	5680 - Maint Supv & Engineering	8,565	(736)	7,830
AEP Service Corporation	5690 - Maintenance of Structures	91	11	101
AEP Service Corporation	5691 - Maint of Computer Hardware	8,189	(312)	7,877
AEP Service Corporation	5692 - Maint of Computer Software	130,472	(5,624)	124,849

Affiliate	FERC Account	Per Books	Proforma Adjustments	Adjusted Test Year
AEP Service Corporation	5693 - Maint of Communication Equip	63		63
AEP Service Corporation	5700 - Maint of Station Equipment	199,012	(19,298)	179,714
AEP Service Corporation	5710 - Maintenance of Overhead Lines	23,582	(4,287)	19,295
AEP Service Corporation	5720 - Maint of Underground Lines	(120)	111	(9)
AEP Service Corporation	5730 - Maint of Misc Trnsmssion Plt	1,726	(636)	1,090
AEP Service Corporation	5800 - Oper Supervision & Engineering	1,136,752	(94,190)	1,042,562
AEP Service Corporation	5820 - Station Expenses	65,146	(3,878)	61,269
AEP Service Corporation	5830 - Overhead Line Expenses	525	(24)	502
AEP Service Corporation	5840 - Underground Line Expenses	13,168	(1,227)	11,941
AEP Service Corporation	5860 - Meter Expenses	174,274	(8,257)	166,017
AEP Service Corporation	5880 - Miscellaneous Distribution Exp	396,125	372,924	769,050
AEP Service Corporation	5900 - Maint Supv & Engineering	8,734	(814)	7,920
AEP Service Corporation	5910 - Maintenance of Structures	25	(35)	(10)
AEP Service Corporation	5920 - Maint of Station Equipment	92,497	(16,453)	76,044
AEP Service Corporation	5930 - Maintenance of Overhead Lines	47,253	(3,261)	43,992
AEP Service Corporation	5940 - Maint of Underground Lines	471	2	472
AEP Service Corporation	5960 - Maint of Strt Lghtng & Sgnal S	(0)	0	0
AEP Service Corporation	5970 - Maintenance of Meters	309	(7)	302
AEP Service Corporation	5980 - Maint of Misc Distribution Plt	33	(33)	0
AEP Service Corporation	9010 - Supervision - Customer Accts	71,781	(1,481)	70,300
AEP Service Corporation	9020 - Meter Reading Expenses	125,785	(2,287)	123,498
AEP Service Corporation	9030 - Cust Records & Collection Exp	8,725,496	(231,165)	8,494,332
AEP Service Corporation	9050 - Misc Customer Accounts Exp	25,004	(220)	24,784
AEP Service Corporation	9070 - Supervision - Customer Service	110,836	(2,274)	108,562
AEP Service Corporation	9080 - Customer Assistance Expenses	65,263	(931)	64,333
AEP Service Corporation	9090 - Information & Instruct Advtis	0		0
AEP Service Corporation	9100 - Misc Cust Svc&Informational Ex	18,605	(1,364)	17,240
AEP Service Corporation	9110 - Supervision - Sales Expenses	(3)		(3)
AEP Service Corporation	9120 - Demonstrating & Selling Exp	2,688	84	2,773
AEP Service Corporation	9200 - Administrative & Gen Salaries	24,315,763	(2,787,257)	21,528,506
AEP Service Corporation	9210 - Office Supplies and Expenses	8,948	(1,206)	7,742
AEP Service Corporation	9220 - Administrative Exp Trnsf - Cr	0	0	0
AEP Service Corporation	9230 - Outside Services Employed	(1,441,888)	32,552	(1,409,337)
AEP Service Corporation	9250 - Injuries and Damages	17,176	(3,749)	13,427
AEP Service Corporation	9260 - Employee Pensions & Benefits	22,937	(1,655)	21,282
AEP Service Corporation	9280 - Regulatory Commission Exp	1,687,092	(1,571,166)	115,926
AEP Service Corporation	9301 - General Advertising Expenses	41	2	42
AEP Service Corporation	9302 - Misc General Expenses	247,146	(10,624)	236,522
AEP Service Corporation	9350 - Maintenance of General Plant	190,886	(9,977)	180,909
AEP Texas Company	1070 - Construction Work In Progress	376,509		376,509
AEP Texas Company	1080 - Accum Prov for Deprec of Plant	33,808		33,808
AEP Texas Company	1840 - Clearing Accounts	2,098		2,098
AEP Texas Company	1860 - MDD-Internal Billing Only	10,422		10,422
AEP Texas Company	4264 - Civic & Political Activities	211		211
AEP Texas Company	5000 - Oper Supervision & Engineering	164		164
AEP Texas Company	5130 - Maintenance of Electric Plant	1,430		1,430
AEP Texas Company	5600 - Oper Supervision & Engineering	10,974		10,974
AEP Texas Company	5620 - Station Expenses	14,975		14,975
AEP Texas Company	5660 - Misc Transmission Expenses	7,118		7,118
AEP Texas Company	5700 - Maint of Station Equipment	54,701		54,701
AEP Texas Company	5710 - Maintenance of Overhead Lines	80,841		80,841
AEP Texas Company	5800 - Oper Supervision & Engineering	11,227		11,227
AEP Texas Company	5810 - Load Dispatching	12,601		12,601
AEP Texas Company	5830 - Overhead Line Expenses	9,741		9,741
AEP Texas Company	5850 - Street Lighting & Signal Sys E	24		24
AEP Texas Company	5860 - Meter Expenses	16,983		16,983
AEP Texas Company	5870 - Customer Installations Exp	6,738		6,738
AEP Texas Company	5880 - Miscellaneous Distribution Exp	8,264		8,264
AEP Texas Company	5900 - Maint Supv & Engineering	2,222		2,222
AEP Texas Company	5920 - Maint of Station Equipment	7,806		7,806
AEP Texas Company	5930 - Maintenance of Overhead Lines	10,907		10,907
AEP Texas Company	5940 - Maint of Underground Lines	2		2
AEP Texas Company	5950 - Maint of Lne Trnf, Rglators&Dvi	13,765		13,765
AEP Texas Company	5960 - Maint of Strt Lghtng & Sgnal S	73		73
AEP Texas Company	5970 - Maintenance of Meters	584		584

Affiliate	FERC Account	Per Books	Proforma Adjustments	Adjusted Test Year
AEP Texas Company	9030 - Cust Records & Collection Exp	3,246		3,246
AEP Texas Company	9080 - Customer Assistance Expenses	102,685		102,685
AEP Texas Company	9200 - Administrative & Gen Salaries	60,955		60,955
AEP Texas Company	9280 - Regulatory Commission Exp	65		65
AEP Texas Company	9350 - Maintenance of General Plant	32,110		32,110
Appalachian Power Company	1070 - Construction Work In Progress	6,467		6,467
Appalachian Power Company	1080 - Accum Prov for Deprec of Plant	184		184
Appalachian Power Company	1630 - Stores Expense Undistributed	543		543
Appalachian Power Company	1840 - Clearing Accounts	7,527		7,527
Appalachian Power Company	1880 - R&D Expenses	42		42
Appalachian Power Company	5000 - Oper Supervision & Engineering	1,113		1,113
Appalachian Power Company	5020 - Steam Expenses	593		593
Appalachian Power Company	5060 - Misc Steam Power Expenses	2,583		2,583
Appalachian Power Company	5120 - Maintenance of Boiler Plant	1,880		1,880
Appalachian Power Company	5130 - Maintenance of Electric Plant	5,494		5,494
Appalachian Power Company	5140 - Maintenance of Misc Steam Pit	961		961
Appalachian Power Company	5600 - Oper Supervision & Engineering	76		76
Appalachian Power Company	5660 - Misc Transmission Expenses	18		18
Appalachian Power Company	5800 - Oper Supervision & Engineering	8,946		8,946
Appalachian Power Company	5830 - Overhead Line Expenses	0		0
Appalachian Power Company	5860 - Meter Expenses	1,600		1,600
Appalachian Power Company	5880 - Miscellaneous Distribution Exp	17		17
Appalachian Power Company	5930 - Maintenance of Overhead Lines	644		644
Appalachian Power Company	5950 - Maint of Lne Trnf,Rglators&Dvi	(2)		(2)
Appalachian Power Company	5960 - Maint of Strt Lghtng & Sgnal S	96		96
Appalachian Power Company	9030 - Cust Records & Collection Exp	(204)		(204)
Appalachian Power Company	9200 - Administrative & Gen Salaries	42,492		42,492
Appalachian Power Company	9350 - Maintenance of General Plant	102		102
Dolet Hills Lignite Co, LLC	4010 - Operation Expense	835		835
Dolet Hills Lignite Co, LLC	5000 - Oper Supervision & Engineering	1,078	(1,078)	0
Dolet Hills Lignite Co, LLC	5060 - Misc Steam Power Expenses	2,166	(2,166)	0
Dolet Hills Lignite Co, LLC	5120 - Maintenance of Boiler Plant	917	(917)	0
Dolet Hills Lignite Co, LLC	5130 - Maintenance of Electric Plant	206	(206)	0
Dolet Hills Lignite Co, LLC	5140 - Maintenance of Misc Steam Pit	38,539	(38,539)	0
Indiana Michigan Power Company	1070 - Construction Work In Progress	1,565		1,565
Indiana Michigan Power Company	1080 - Accum Prov for Deprec of Plant	174		174
Indiana Michigan Power Company	1630 - Stores Expense Undistributed	34,585		34,585
Indiana Michigan Power Company	1840 - Clearing Accounts	12,730		12,730
Indiana Michigan Power Company	5000 - Oper Supervision & Engineering	13,543		13,543
Indiana Michigan Power Company	5100 - Maint Supv & Engineering	372		372
Indiana Michigan Power Company	5120 - Maintenance of Boiler Plant	3,070		3,070
Indiana Michigan Power Company	5130 - Maintenance of Electric Plant	2,464		2,464
Indiana Michigan Power Company	5140 - Maintenance of Misc Steam Pit	151		151
Indiana Michigan Power Company	5240 - Misc Nuclear Power Expenses	126		126
Indiana Michigan Power Company	5600 - Oper Supervision & Engineering	5,235		5,235
Indiana Michigan Power Company	5660 - Misc Transmission Expenses	2,505		2,505
Indiana Michigan Power Company	5830 - Overhead Line Expenses	(2)		(2)
Indiana Michigan Power Company	5860 - Meter Expenses	230		230
Indiana Michigan Power Company	5880 - Miscellaneous Distribution Exp	6,176		6,176
Indiana Michigan Power Company	5920 - Maint of Station Equipment	294		294
Indiana Michigan Power Company	5930 - Maintenance of Overhead Lines	1,007		1,007
Indiana Michigan Power Company	5940 - Maint of Underground Lines	173		173
Indiana Michigan Power Company	5950 - Maint of Lne Trnf,Rglators&Dvi	22		22
Indiana Michigan Power Company	5960 - Maint of Strt Lghtng & Sgnal S	7		7
Indiana Michigan Power Company	9030 - Cust Records & Collection Exp	527		527
Indiana Michigan Power Company	9200 - Administrative & Gen Salaries	71,653		71,653
Kentucky Power Company	1070 - Construction Work In Progress	29		29
Kentucky Power Company	1080 - Accum Prov for Deprec of Plant	10		10
Kentucky Power Company	1630 - Stores Expense Undistributed	2,404		2,404
Kentucky Power Company	1840 - Clearing Accounts	192		192
Kentucky Power Company	5000 - Oper Supervision & Engineering	3,723		3,723
Kentucky Power Company	5060 - Misc Steam Power Expenses	1,275		1,275
Kentucky Power Company	5120 - Maintenance of Boiler Plant	3,652		3,652
Kentucky Power Company	5130 - Maintenance of Electric Plant	591		591
Kentucky Power Company	5140 - Maintenance of Misc Steam Pit	1,739		1,739

Affiliate	FERC Account	Per Books	Proforma Adjustments	Adjusted Test Year
Kentucky Power Company	5830 - Overhead Line Expenses	204		204
Kentucky Power Company	5860 - Meter Expenses	(55)		(55)
Kentucky Power Company	5880 - Miscellaneous Distribution Exp	88		88
Kentucky Power Company	5930 - Maintenance of Overhead Lines	273		273
Kentucky Power Company	9010 - Supervision - Customer Accts	69		69
Kentucky Power Company	9200 - Administrative & Gen Salaries	23,768		23,768
Kingsport Power Company	5860 - Meter Expenses	9		9
Ohio Power Company	1070 - Construction Work In Progress	23,115		23,115
Ohio Power Company	1080 - Accum Prov for Deprec of Plant	1,082		1,082
Ohio Power Company	1630 - Stores Expense Undistributed	1,653		1,653
Ohio Power Company	1840 - Clearing Accounts	4,477		4,477
Ohio Power Company	1880 - R&D Expenses	5		5
Ohio Power Company	5600 - Oper Supervision & Engineering	48		48
Ohio Power Company	5660 - Misc Transmission Expenses	292		292
Ohio Power Company	5800 - Oper Supervision & Engineering	10,179		10,179
Ohio Power Company	5830 - Overhead Line Expenses	341		341
Ohio Power Company	5840 - Underground Line Expenses	79,319		79,319
Ohio Power Company	5860 - Meter Expenses	3,774		3,774
Ohio Power Company	5880 - Miscellaneous Distribution Exp	4,956		4,956
Ohio Power Company	5890 - Rents	332		332
Ohio Power Company	5930 - Maintenance of Overhead Lines	1,263		1,263
Ohio Power Company	5950 - Maint of Lne Trnf,Rglators&Dvi	1		1
Ohio Power Company	9030 - Cust Records & Collection Exp	952		952
Ohio Power Company	9080 - Customer Assistance Expenses	153		153
Ohio Power Company	9110 - Supervision - Sales Expenses	32		32
Ohio Power Company	9200 - Administrative & Gen Salaries	43,676		43,676
Public Service Company of Oklahoma	1070 - Construction Work In Progress	375,015		375,015
Public Service Company of Oklahoma	1080 - Accum Prov for Deprec of Plant	5,052		5,052
Public Service Company of Oklahoma	1630 - Stores Expense Undistributed	38,361		38,361
Public Service Company of Oklahoma	1840 - Clearing Accounts	30,351		30,351
Public Service Company of Oklahoma	1880 - R&D Expenses	1,502		1,502
Public Service Company of Oklahoma	5000 - Oper Supervision & Engineering	43,531		43,531
Public Service Company of Oklahoma	5060 - Misc Steam Power Expenses	1,552		1,552
Public Service Company of Oklahoma	5100 - Maint Supv & Engineering	52,638		52,638
Public Service Company of Oklahoma	5110 - Maintenance of Structures	126		126
Public Service Company of Oklahoma	5120 - Maintenance of Boiler Plant	349		349
Public Service Company of Oklahoma	5130 - Maintenance of Electric Plant	6,273		6,273
Public Service Company of Oklahoma	5140 - Maintenance of Misc Steam Plt	438		438
Public Service Company of Oklahoma	5600 - Oper Supervision & Engineering	21,048		21,048
Public Service Company of Oklahoma	5612 - Load Dispatch-Mntr&Op TransSys	100		100
Public Service Company of Oklahoma	5620 - Station Expenses	3,437		3,437
Public Service Company of Oklahoma	5630 - Overhead Line Expenses	13		13
Public Service Company of Oklahoma	5660 - Misc Transmission Expenses	31,071		31,071
Public Service Company of Oklahoma	5700 - Maint of Station Equipment	38,588		38,588
Public Service Company of Oklahoma	5710 - Maintenance of Overhead Lines	13,228		13,228
Public Service Company of Oklahoma	5800 - Oper Supervision & Engineering	17,958		17,958
Public Service Company of Oklahoma	5840 - Underground Line Expenses	(1,055)		(1,055)
Public Service Company of Oklahoma	5860 - Meter Expenses	16,063		16,063
Public Service Company of Oklahoma	5870 - Customer Installations Exp	144		144
Public Service Company of Oklahoma	5880 - Miscellaneous Distribution Exp	2,781		2,781
Public Service Company of Oklahoma	5920 - Maint of Station Equipment	16,178		16,178
Public Service Company of Oklahoma	5930 - Maintenance of Overhead Lines	77,315		77,315
Public Service Company of Oklahoma	5950 - Maint of Lne Trnf,Rglators&Dvi	25		25
Public Service Company of Oklahoma	5960 - Maint of Strt Lghtng & Sgnal S	7		7
Public Service Company of Oklahoma	9030 - Cust Records & Collection Exp	4,176		4,176
Public Service Company of Oklahoma	9200 - Administrative & Gen Salaries	36,950		36,950
Public Service Company of Oklahoma	9350 - Maintenance of General Plant	8,670		8,670
Wheeling Power Company	5860 - Meter Expenses	14		14
Wheeling Power Company	5930 - Maintenance of Overhead Lines	(1)		(1)
Wheeling Power Company	9200 - Administrative & Gen Salaries	144		144
Grand Total		108,026,803	(5,475,472)	102,551,330

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-32:

For each employee of SWEPCO, its parent company, or affiliate whose salary and benefits are in any way included in SWEPCO's revenue requirement and whose salary and benefits are subject to the \$1 million deductibility limit under the Tax Cuts and Jobs Act of 2017, provide for each individual the total compensation by type and the amount of such compensation included in SWEPCO's request by FERC account.

Response No. Staff 5-32:

Please refer to Staff 5-32 Attachment 1 for analysis of AEPSC employees subject to the \$1 million deductibility limit under the Tax Cuts and Jobs Act of 2017, and the amounts of compensation by type billed to SWEPCO during the test year by FERC Account for each individual. SWEPCO has no employees that meet this threshold.

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Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Brian J. Frantz

Title: Dir Accounting

SOUTHWESTERN ELECTRIC POWER COMPANY
Executive Compensation
Billed from AEPSC to SWEPCO by FERC Account by Type
For The Test Year Ended March 31, 2020

Executive	FERC Acct	Salary	Stock Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation	Retirement Savings Plan	Supplemental Retirement Savings Plan	Perquisites
Executive #1	1880 - R&D Expenses	1,437	8,546	3,506	516	12	75	21
Executive #1	4264 - Civic & Political Activities	3,867	22,994	9,433	1,389	33	203	57
Executive #1	5000 - Oper Supervision & Engineering	7,193	42,774	17,548	2,584	61	377	105
Executive #1	9200 - Administrative & Gen Salaries	122,086	725,984	297,840	43,861	1,042	6,404	1,789
Executive #1	9302 - Misc General Expenses	7,364	43,791	17,966	2,646	63	386	108
Executive #2	9200 - Administrative & Gen Salaries	59,313	326,566	83,184	17,522	1,270	3,994	1,572
Executive #3	5000 - Oper Supervision & Engineering	185	394	236	47	3	13	4
Executive #3	9200 - Administrative & Gen Salaries	44,659	95,255	57,010	11,467	830	3,111	899
Executive #3	9250 - Injuries and Damages	1,465	3,125	1,870	376	27	102	29
Executive #3	9280 - Regulatory Commission Exp	744	1,586	949	191	14	52	15
Executive #4	1070 - Construction Work In Progress	7,146	13,187	9,290	2,569	146	487	236
Executive #4	9200 - Administrative & Gen Salaries	58,801	108,516	76,445	21,141	1,204	4,009	1,938
Executive #5	9200 - Administrative & Gen Salaries	80,313	411,640	110,184	47,612	1,276	6,376	2,025
Grand Total		394,572	1,804,359	685,462	151,923	5,984	25,589	8,798

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-33:

Does the Company's requested revenue requirement include any amounts for moving allowances, signing bonuses, or severance packages? If so, please specify by type, amount, and FERC account.

Response No. Staff 5-33:

Yes. Please refer to Staff 5-33 Attachment 1 for AEPSC billings to SWEPCO for moving allowance, other lump sum payments (which include signing bonuses), and severances for the Adjusted Test Year, by FERC Account. See Staff 5-33 Attachment 2 for the SWEPCO moving allowance and severance expense by FERC account. SWEPCO did not incur signing bonuses within the test year.

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Title: Regulatory Acctg Case Mgr

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Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Andrew R. Carlin

Title: Dir Comp & Executive Benefits

**AEPSC Billings to SWEPCO
Moving Allowances, Other Lump Sum Payment & Severances by FERC Account
For The Adjusted Test Year**

FERC Account	Moving Allowances	Other Lump Sum Payments	Severance Packages	Grand Total
5000 - Oper Supervision & Engineering	22,276	7,722	1,455,253	1,485,251
5010 - Fuel	423	0		424
5020 - Steam Expenses		337	1,913	2,250
5060 - Misc Steam Power Expenses		113		113
5100 - Maint Supv & Engineering		(6)		(6)
5120 - Maintenance of Boiler Plant		10		10
5390 - Misc Hydr Power Generation Exp		0		0
5560 - Sys Control & Load Dispatching		(251)		(251)
5570 - Other Expenses		282	149	431
5600 - Oper Supervision & Engineering	8,865	9,642		18,507
5612 - Load Dispatch-Mntr&Op TransSys		(148)		(148)
5615 - Reliability, PIng&Stds Develop		(2)		(2)
5630 - Overhead Line Expenses		0		0
5660 - Misc Transmission Expenses	705	64		769
5680 - Maint Supv & Engineering	0			0
5710 - Maintenance of Overhead Lines		1		1
5800 - Oper Supervision & Engineering	1,880	207		2,087
5880 - Miscellaneous Distribution Exp		97		97
5920 - Maint of Station Equipment		0		0
5930 - Maintenance of Overhead Lines		6		6
9030 - Cust Records & Collection Exp		1,888	2,084	3,972
9200 - Administrative & Gen Salaries	19,741	19,121	1,477	40,340
9280 - Regulatory Commission Exp	64	0		64
9302 - Misc General Expenses		4,065		4,065
Grand Total	53,954	43,150	1,460,876	1,557,980

SOUTHWESTERN ELECTRIC POWER COMPANY

Relocation and Severance costs

For the test year ended 3/31/2020

FERC	Relocation	Severance
5000	60,785	236,754
5020	12,729	
5050	5,627	
5060	2,790	
5100	28,608	
5120	1,338	
5140	398	
5600		174,340
5800		126,246
5880	7,230	
9070	643	
9200	459	229,734
Total	120,606	767,074

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION

Question No. Staff 5-34:

Reference the Company's response to Staff 5-33. Please provide the level of moving allowances, signing bonuses, and severance payments for the previous three calendar years and the current calendar year to date.

Response No. Staff 5-34:

Please refer to Staff 5-34 Attachment 1 for AEPSC billings to SWEPCO for moving allowance, other lump sum payments (which include signing bonuses), and severances for the calendar years 2017, 2018, 2019, and YTD Sept 2020, by FERC Account. See Staff 5-34 Attachment 2 for SWEPCO moving allowance and severance expense for calendar years 2017 2018, 2019 and 2020 through September, by FERC account. SWEPCO incurred no signing bonuses during the time requested.

Prepared By: Frances K. Bourland

Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Andrew R. Carlin

Title: Dir Comp & Executive Benefits

AEPSC Billings to SWEPCo
Moving Allowances, Other Lump Sum Payment, & Severances by FERC Account
For Calendar Years 2017, 2018, 2019, and YTD Sept 2020

FERC Account	Moving Allowances	Other Lump Sum Payments	Severance Packages	2017 Total	Moving Allowances	Other Lump Sum Payments	Severance Packages	2018 Total	Moving Allowances	Other Lump Sum Payments	Severance Packages	2019 Total	Moving Allowances	Other Lump Sum Payments	Severance Packages	YTD Sept 2020 Total
5000 - Oper Supervision & Engineering	21,758	(154,199)	224,323	91,882	3,113	(192,161)	66,887	(122,161)	20,068	9,594	2,677,579	2,707,242	8,721	(1,200)	178,362	185,883
5010 - Fuel	2,084	431		2,516		1		1	423	(3)		420	834	19		852
5020 - Steam Expenses			2,338	2,338				0		(10)		(10)		347	1,913	2,260
5060 - Misc Steam Power Expenses	676	828		1,504		181		181		107	254,482	254,589		752,034	402,337	1,154,371
5100 - Maint Supv & Engineering	16,522	204		16,726	36			36		(6)		(6)				0
5120 - Maintenance of Boiler Plant				0				0				0		10		10
5130 - Maintenance of Electric Plant		38		38	167			167				0				0
5140 - Maintenance of Misc Steam Plt				0				0				0		(4)		(4)
5280 - Maint Supv & Engineering		2		2		4		4		7		7				0
5350 - Oper Supervision & Engineering				0		2		2				0				0
5390 - Misc Hydr Power Generation Exp				0				0		(7)		(7)				0
5560 - Sys Control & Load Dispatching				0				0		(251)		(251)		1,076		1,076
5570 - Other Expenses	(282)		54,738	54,456	38	3,023		3,062		391		391		1	149	150
5600 - Oper Supervision & Engineering	19,253	4,514		23,767	8,156	1,856		10,012	5,682	4,969		10,651	6,821	6,184		13,005
5612 - Load Dispatch-Mntlr&Op TransSys	541	0		542	3,066	0		3,067				0		(148)		(148)
5615 - Reliability, Ping&Sids Develop		63		63	25	1		26				0		(2)		(2)
5620 - Station Expenses		281		281				0				0				0
5630 - Overhead Line Expenses	24	1		25				0				0				0
5660 - Misc Transmission Expenses	853	300		1,153	343	1,076		1,419	1,567	(171)		1,396	1,011	337,114		338,124
5680 - Maint Supv & Engineering				0				0	0			0				0
5692 - Maint of Computer Software		21		21				0				0				0
5700 - Maint of Station Equipment		189		189	250	0		250				0				0
5710 - Maintenance of Overhead Lines				0				0				0		1		1
5730 - Maint of Misc Trnsmission Plt	0	0		0		14		14				0				0
5800 - Oper Supervision & Engineering	5,443	281		5,724	42	37		79	1,963			1,963	87	207		294
5820 - Station Expenses	141	104		246				0	16			16				0
5860 - Meter Expenses		84		84				0				0		(64)		(64)
5880 - Miscellaneous Distribution Exp	994	(405)		589		129		129		1,505		1,505		238,391		238,391
5920 - Maint of Station Equipment				566	14	0		14		(3)		(3)				0
5930 - Maintenance of Overhead Lines		566		566				0				0		6		6
9010 - Supervision - Customer Accts				0				0				0		60		60
9030 - Cust Records & Collection Exp	129	4	71,135	71,267		1,589	(13,501)	(11,912)		344	52,448	52,792		1,578		1,578
9070 - Supervision - Customer Service				0		201		201				0		986		986
9200 - Administrative & Gen Salaries	31,479	55,638	87,919	175,036	27,843	24,348	488,450	540,640	28,935	12,681	(76,946)	14,660	9,957	1,518,317	970,645	2,498,919
9210 - Office Supplies and Expenses	0	0		0		0		0				0				0
9230 - Outside Services Employed	74	0		74		0		0				0				0
9250 - Injuries and Damages				0	105	0		105	1			1				0
9280 - Regulatory Commission Exp		132		132		2		2	12,111	792		12,903		11		11
9302 - Misc General Expenses		5		5	0	65		65		4,131		4,131		21		21
Grand Total	99,690	(90,918)	440,453	449,225	43,197	(159,630)	541,836	425,403	70,766	34,071	2,957,553	3,062,390	27,430	2,854,943	1,553,405	4,435,778

SOUTHWESTERN ELECTRIC POWER COMPANY
Relocation and Severance expense
for the years 2017, 2018, 2019 and 2020 through September

	Relocation				Severance			
	2017	2018	2019	Jan - Sep '20	2017	2018	2019	Jan - Sep '20
5000	17,361	30,506	100,976	4,229			236,754	
5020	9,801		12,427	564				
5050			5,058	569				
5060	1,287		19,197	93				902,617
5100		7,451	28,716					
5120			4,006					
5140			395	3				
5480			4					
5600	131			32				174,340
5660	965			18				
5700	11,576			359				
5800	1,021							126,246
5830	8			58				
5840	25							
5860				7				
5880	505	1,329		25,106				
5920				79				
5930	312			6,133				
5980				8				
9070		12,764		9,083				
9080			15,000					
9200	20,650	151,131		459			144,837	236,762
9250		10,596						
Total	63,643	213,778	185,779	46,799	-	-	381,591	1,439,965

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-35:

Does the Company's requested revenue requirement include amounts for executive perquisites such as financial planning and tax gross-ups? If so, please provide an explanation of the types of perquisites included, a copy of the Company's policies regarding the payment of such perquisites, and the amount of such payments included in the revenue requirement by FERC account.

Response No. Staff 5-35:

Please refer to Company response to Staff 5-32 (Staff 5-32 Attachment 1) which has the amount of executive perquisites billed to SWEPCO from AEPSC by FERC Account. Perquisites provided include: financial counseling and tax preparation services, and for certain executives, director's group travel accident insurance premium. Please see Staff 5-35 Attachment 1 for an excerpt from the Company's Proxy discussing executive perquisites. The total company amount of SWEPCO executive perquisites included in the revenue requirement by FERC account were \$1,057 in FERC account 9010 and \$11,054 in FERC account 9200.

Prepared By: Frances K. Bourland

Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Andrew R. Carlin

Title: Dir Comp & Executive Benefits

Retirement, Health and Welfare Benefits

Health and Welfare Benefits. AEP generally provides the same health and welfare benefits to named executive officers as it provides to other employees. AEP also provides the named executive officers with either four or five weeks of paid vacation, depending on their length of service and position.

Retirement Benefits. The named executive officers participate in the same tax-qualified defined benefit pension plan and defined contribution savings plan as other eligible employees. They also participate in the Company's non-qualified retirement benefit plans, which provide these executives with benefits that would otherwise be provided through the tax-qualified plans but for IRS limits. This allows the named executive officers to accumulate replacement income for their retirement based on the same benefit formulas as the tax qualified plans but without the limitations that are imposed by the Internal Revenue Code on the tax-qualified plans.

The HR Committee believes that executives generally should be entitled to the same retirement benefits, as a percentage of their eligible pay, as the Company's other employees. Non-qualified retirement benefit plans are also prevalent among large employers both within our industry and other large U.S. industrial companies. The Company provides these benefits as part of a market competitive total rewards package.

The Company limits the types of compensation that are included in the qualified and non-qualified retirement plans because the HR Committee and AEP management believe that certain types of compensation should not be further enhanced by including them in retirement benefit calculations. Therefore, long-term incentive compensation is not included in the calculations that determine retirement and other benefits under AEP's benefit plans.

Life Insurance Benefits. AEP provides group term life insurance benefits to all employees, including the named executive officers, in the amount of two times their base salary.

Relocation Assistance. For all employees, including executives, whom the Company asks to relocate, AEP offers relocation assistance to offset their moving expenses. This allows AEP to obtain high quality new hires and to relocate internal job candidates.

Perquisites. The HR Committee annually reviews the perquisites provided by the Company. AEP provides independent financial counseling and tax preparation services to assist executives with financial planning and tax filings. Income is imputed to executives and taxes are withheld for these services.

The HR Committee generally prohibits personal use of corporate aircraft that has an incremental cost to the Company. The Company allows personal travel on business trips using the corporate aircraft if there is no incremental cost to the Company. Income is imputed and taxes are withheld on the value of personal travel on corporate aircraft in accordance with IRS guidelines.

Mr. Akins has entered into an Aircraft Time Sharing Agreement that allows him to use our corporate aircraft for personal use up to 40 hours each year, not including hours associated with repositioning the aircraft. The Aircraft Time Sharing Agreement requires him to reimburse the Company for the cost of his personal use of corporate aircraft in accordance with limits set forth in Federal Aviation Administration regulations for non-commercial aircraft operators. Mr. Akins has reimbursed AEP for personal use flights in an amount equal to or exceeding the aggregate incremental costs of such flights during 2019. See footnote 5 to the Summary Compensation Table for further information.

Severance Arrangements

Change In Control Agreements. The HR Committee provides Change In Control agreements to all the named executive officers. While the HR Committee believes these agreements are consistent with the practices of its peer companies, the most important reason for these agreements is to protect the Company and the interests of shareholders in the event of an anticipated or actual change in control. During such transitions, retaining and continuing to motivate the Company's key executives would be critical to protecting shareholder value. In a change of control situation,

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-36:

Please provide the amount of financial based incentive compensation expense capitalized each year by plan type since the June 30, 2016 end of the test year in Docket No. 46449 and included in the Company's requested invested capital balance. Provide the information by FERC account by year separately for SWEPCO and allocated affiliate expenses.

Response No. Staff 5-36:

During the preparation of the Company's response to a request for information in this docket, an error was discovered in a calculation of the financial based capitalized incentive compensation during 2019. This error results in the Company including \$43,345 in financial based incentive compensations expense per the table below. Aside from that information, SWEPCO has not included any capitalized financial based incentive compensation expense in its requested invested capital associated with time period June 30, 2016 through March 2020.

		<u>SWEPCO</u>		<u>AEPSC</u>		<u>Total</u>
		<u>1070</u>	<u>1080</u>	<u>1070</u>	<u>1080</u>	
Distribution Plan	ICP	35,322	5,469	2,538	16	43,345

The amortization that would have been recorded related to this activity would have been \$1,306, resulting in net capitalized financial based incentives of \$42,039.

Prepared By: Frances K. Bourland

Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Andrew R. Carlin

Title: Dir Comp & Executive Benefits

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-37:

Please provide the amount of supplemental executive retirement program expense capitalized every year since the June 30, 2016 end of the test year in Docket No. 46449 and included in the Company's requested invested capital balance. Provide the information by FERC account by year separately for SWEPCO and allocated affiliate expenses.

Response No. Staff 5-37:

SWEPCO has not included any capitalized supplemental executive retirement program expense in its requested invested capital associated with time period June 30, 2016 through March 2020.

Prepared By: Frances K. Bourland

Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Andrew R. Carlin

Title: Dir Comp & Executive Benefits

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-38:

Please provide a list of internal and external audits performed for the Company for the previous three calendar years by its internal and external auditors.

Response No. Staff 5-38:

Please see Staff 5-38 Attachment 1 for SWEPCO financial audit opinions for the years 2017, 2018 and 2019 that were performed by an external independent certified public accounting firm. Please see Staff 5-38 Attachment 2 for a list of all internal audits performed for the Company for the previous three calendar years.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON
FINANCIAL STATEMENT SCHEDULES**

To the Board of Directors and Shareholders of
American Electric Power Company, Inc.

Our audit of the consolidated financial statements referred to in our report dated February 22, 2018 appearing in the 2017 Annual Report to Shareholders of American Electric Power Company, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the accompanying schedule of condensed financial information and the schedule of valuation and qualifying accounts and reserves as of December 31, 2017 and for the year then ended. In our opinion, these financial statement schedules as of December 31, 2017 and for the year then ended present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Columbus, Ohio
February 22, 2018

S-2

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON
FINANCIAL STATEMENT SCHEDULES**

To the Board of Directors and Shareholders of
American Electric Power Company, Inc.

Our audits of the consolidated financial statements referred to in our report dated February 21, 2019 appearing in the 2018 Annual Report to Shareholders of American Electric Power Company, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the accompanying schedule of condensed financial information and the schedule of valuation and qualifying accounts and reserves as of December 31, 2018 and 2017 and for each of the two years in the period ended December 31, 2018. In our opinion, these financial statement schedules as of December 31, 2018 and 2017 and for each of the two years in the period ended December 31, 2018 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Columbus, Ohio
February 21, 2019

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON
FINANCIAL STATEMENT SCHEDULES**

To the Board of Directors and Shareholders of
American Electric Power Company, Inc.

Our audits of the consolidated financial statements referred to in our report dated February 20, 2020 appearing in the 2019 Annual Report of American Electric Power Company, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the accompanying schedule of condensed financial information as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and schedule of valuation and qualifying accounts and reserves for each of the three years in the period ended December 31, 2019. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Columbus, Ohio
February 20, 2020

Audit report	Issue date
Transmission Contractor Oversight	Jan-17
WorleyParsons Group, Inc. Contract	Jan-17
Southern Electric Corporation Contract	Jan-17
2016 Coal Pile Inventories Audit Report – Regulated Facilities	Jan-17
High Energy Pipe Inspection and Maintenance Program	Feb-17
Zachry Industrial Inc. Contract	Feb-17
General Cable Industries Contract	Feb-17
State Presidents 2016 Expense Report Review	Feb-17
Burns & McDonnell Engineering Contract Audit	Mar-17
Can-Fer Utility Services, LLC Contract Audit	Mar-17
Valmont Newmark, Inc. Contract Audit	Mar-17
Power Engineers Inc. Contract	May-17
Southwire Company, LLC Contract	Jun-17
Knox Lee Plant	Jun-17
Grid Resiliency Review	Jul-17
Rev1 Power Services, Inc. Contract	Jul-17
Welsh Power Plant	Jul-17
Phoenix Industrial Insulation Corporation Contract	Aug-17
EASi, LLC Contract Audit	Aug-17
Edko, LLC Contract	Sep-17
Fayetteville Service Center	Sep-17
Enerfab Power & Industrial, Inc. Contract	Oct-17
Electrical Consultants, Inc. Contract	Oct-17
Dolet Hills Lignite Mining Financial Controls	Nov-17
Longview and Henderson Service Centers	Nov-17
Gas Supply Process	Dec-17
Marmon Utility, LLC Contract	Jan-18
2017 Coal Pile Inventories – Regulated Facilities	Jan-18
GE International, Inc. Contract	Jan-18
GAI Consultants, Inc. Contract	Jan-18
State Presidents 2017 Expense Report Review	Jan-18
East Texas HVDC Tie Billing Review (2014 – 2016)	Feb-18
Nehring Electrical Works Company Contract	Feb-18
Electric Research and Manufacturing Cooperative, Inc. Contract	Feb-18
V&S Schuler Engineering, Inc. Contract	Apr-18
Longview Service Center	May-18
Asplundh Tree Expert Company Contract	Jun-18
Mutual Assistance Storm Recovery Billings	Jun-18
Transmission Right of Way	Jul-18
Suez WTS USA, Inc. Contract	Jul-18
Coates Field Service, Inc. Contract	Jul-18

Audit report	Issue date
Accounting for Jointly Owned Assets	Aug-18
Systems Control Contract	Aug-18
Associated Diversified Services Contract	Sep-18
Surveying and Mapping, LLC Contract	Sep-18
Pirkey Power Plant – Hallsville, Texas	Sep-18
Oklaunion Co-Owner Billings Review – 2016 & 2017	Nov-18
Alliance Railcar, Alliance NE	Nov-18
DiGioia, Gray, & Associates, LLC Contract	Dec-18
Utility Lines Construction Services Contract	Dec-18
Facilities Management	Jan-19
Boral Plant Services Contract	Jan-19
Transmission Metering	Jan-19
Reagents Process – Regulated Operating Companies	Mar-19
Generation Plant Operational and Financial Controls Review - SWEPCO	Apr-19
Transmission Project Management Review	Apr-19
TechServ Consulting & Training, Ltd. Contract	Apr-19
Large Customer Billing and Meter Translation Review	May-19
Shermco Industries Inc. Contract	Jul-19
Transmission Contractor Oversight	Aug-19
TRC Companies, Inc. Contract	Aug-19
Cooper Power Systems, LLC Contract	Aug-19
USIC Locating Services, LLC Contract	Oct-19
Nelson Tree Service Contract	Oct-19
Flint Creek and Mattison Power Plants	Oct-19
Service Electric Company Contract	Nov-19
Texarkana, TX and Nashville, AR Service Centers	Nov-19
Davis H. Elliot Company, Inc. Contract	Dec-19
United Rentals Inc. Contract	Dec-19
BrandSafway Services Contract Compliance	Jan-20
Howard Industries, Inc. Contract	Jan-20
Pike Engineering, LLC (f/k/a UC Synergetic, Inc.) Contract	Jan-20
General Cable Industries Inc. Contract	Jan-20
Higher Power Electrical, LLC Contract	Feb-20
Sunbelt Rentals Inc. Contract	Feb-20
EC Source Services, LLC Contract	Feb-20
Roadsafe Traffic Systems Inc. Contract	Mar-20
Varo Engineers LTD. Contract	Mar-20
Stella-Jones Corporation Contract	Mar-20
Dolet Hill Lignite Company – Pelican, LA ESH	Mar-20
Volt Power, LLC Contract	Apr-20

Audit report	Issue date
Oklahoma Electric Supply Company Contract	Apr-20
SWEPCO Generation Joint Venture Billing	Apr-20
LineTec Services, LLC Contract	Apr-20
John W Turk Plant– Fulton, AR ESH	Apr-20
PAR Electrical Contractors, Inc. Contract Audit	May-20
East Texas HVDC Tie Billing Review (2017– 2019)	Jun-20
Wright Tree Service, Inc. Contract	Jun-20
Utility SAIDI Reporting Process	Jul-20
Wilkes Power Station – Avinger, TX	Sep-20
FWT LLC (Sabre Industries Inc.) Contract	Oct-20

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-39:

Refer to the testimony of Brian J. Frantz at page 21, lines 16 through 19. Please provide a copy of the audit report for the referenced FERC audit of AEP affiliate transactions as well as copies of all communications between AEP and FERC related thereto.

Response No. Staff 5-39:

Please refer to Staff 5-39 Attachment 1 for copy of FERC audit report of AEPSC.

Prepared By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Brian J. Frantz

Title: Dir Accounting

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. FA17-1-000

April 23, 2019

American Electric Power Company, Inc.
Attention: Joseph Buonaiuto
Senior Vice President and Chief Accounting Officer
AEP Headquarters Building
1 Riverside Plaza
Columbus, OH 43215

Dear Mr. Buonaiuto:

1. The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed an audit of American Electric Power Company, Inc. (AEP), including its service company and other affiliates in the AEP holding company system (collectively the companies). The audit covered the period from January 1, 2013 through August 31, 2018.

2. The audit evaluated AEP's compliance with: (1) cross-subsidization restrictions on affiliate transactions under 18 C.F.R. Part 35; (2) accounting, recordkeeping, and reporting requirements under 18 C.F.R. Part 366; (3) Uniform System of Accounts (USofA) for centralized service companies under 18 C.F.R. Part 367; (4) preservation of records requirements for holding companies and service companies under 18 C.F.R. Part 368; and (5) FERC Form No. 60 Annual Report requirements under 18 C.F.R. Part 369. The audit also evaluated the associated public utilities' transactions with affiliated companies for compliance with the Commission's accounting requirements under 18 C.F.R. Part 101, the applicable reporting requirements in the FERC Form No. 1 under 18 C.F.R. Part 141, and jurisdictional rates on file. The enclosed audit report contains 4 findings and 22 recommendations that require AEP to take corrective action.

3. On April 5, 2019, you notified DAA that AEP accepts all 4 findings and 22 recommendations in the draft audit report and will submit within 30 days of the issuance of the final audit report a plan for implementing the audit recommendations. A copy of your verbatim response is included as an appendix to this report. I hereby approve the audit report.

20190423-3010 FERC PDF (Unofficial) 04/23/2019

American Electric Power Company, Inc.

Docket No. FA17-1-000

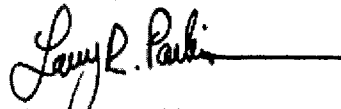
4. AEP should submit its implementation plan to comply with the recommendations within 30 days of this letter order. AEP should make quarterly submissions to DAA describing the progress made to comply with the recommendations, including the completion date for each corrective action. As directed by the audit report, these submissions should be made no later than 30 days after the end of each calendar quarter, beginning with the first quarter after this audit report is issued, and continuing until all the corrective actions are completed.

5. The Commission delegated the authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311. This letter order constitutes final agency action. AEP may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713.

6. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of non-compliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

7. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Mr. Steven D. Hunt, Director and Chief Accountant, Division of Audits and Accounting at (202) 502-6084.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry R. Parkinson", followed by a horizontal line.

Larry R. Parkinson
Director
Office of Enforcement

Enclosure

20190423-3010 FERC PDF (Unofficial) 04/23/2019



**Federal Energy Regulatory
Commission**
Office of Enforcement
Division of Audits and Accounting

AUDIT REPORT

**Audit of American Electric
Power Company, Inc.'s
Compliance with:**

- Cross-Subsidization Restrictions on Affiliate Transactions;
- Regulations Under the Public Utility Holding Company Act of 2005;
- Uniform System of Accounts for Public Utilities' Accounting for Service Company Billings;
- Preservation of Records Requirements for Holding Companies and Service Companies;
- FERC Form No. 60 Reporting Requirements; and
- FERC Form No. 1 Reporting Requirements, Accounting Requirements and Tariff Rate Provisions for Public Utilities' Transactions with Affiliated Companies.

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April 23, 2019

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I. Executive Summary

A. Overview

The Division of Audits and Accounting (DAA) within the Office of Enforcement of the Federal Energy Regulatory Commission (Commission) has completed the audit of American Electric Power Company, Inc. (AEP), including its service company and other affiliates in the AEP holding company system (collectively the companies). The purpose of the audit was to evaluate AEP's compliance with the Commission's:

(1) cross-subsidization restrictions on affiliate transactions under 18 C.F.R. Part 35; (2) accounting, recordkeeping, and reporting requirements under 18 C.F.R. Part 366; (3) Uniform System of Accounts (USofA) for centralized service companies under 18 C.F.R. Part 367; (4) preservation of records requirements for holding companies and service companies under 18 C.F.R. Part 368; and (5) FERC Form No. 60 Annual Report requirements under 18 C.F.R. Part 369. The audit also evaluated the associated public utilities' transactions with affiliated companies for compliance with the Commission's accounting requirements under 18 C.F.R. Part 101, the applicable reporting requirements in the FERC Form No. 1 under 18 C.F.R. Part 141, and jurisdictional rates on file. The audit covered the period January 1, 2013 through August 31, 2018.

B. American Electric Power Company, Inc.

AEP is a public utility holding company based in Columbus, OH, which directly or indirectly owns some or all of the outstanding common stock of its jurisdictional utility and non-utility subsidiaries. Specifically, AEP has one centralized service company subsidiary, American Electric Power Service Corporation (AEPSC), and 24 jurisdictional subsidiaries and multiple non-jurisdictional companies.¹ AEP jurisdictional utilities are

¹ The AEP jurisdictional utilities include:

In PJM: Appalachian Power Company; Indiana Michigan Power Company; Kentucky Power Company; Kingsport Power Company; Ohio Power Company; Wheeling Power Company; AEP Appalachian Transmission Company, Inc.; AEP Indiana Michigan Transmission Company, Inc.; AEP Kentucky Transmission Company, Inc.; AEP Ohio Transmission Company, Inc.; AEP West Virginia Transmission Company, Inc.; PATH West Virginia Transmission Company, LLC; Indiana-Kentucky Electric Corporation; Ohio Valley Electric Corporation; AEP Generating Company; Transource West Virginia, LLC; Transource Maryland, LLC; and Transource Pennsylvania, LLC.

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members of two regional transmission organizations, PJM Interconnection, LLC (PJM) and Southwest Power Pool, Inc. (SPP), and one Independent System Operator, Energy Reliability Council of Texas (ERCOT). Collectively, AEP owns and operates approximately 26,000 megawatts of generation capacity, 40,000 miles of transmission lines, and 224,000 miles of distribution lines.

C. Summary of Compliance Findings

Below is a summary of audit staff's compliance findings. Audit staff identified four areas of noncompliance. Section IV details these compliance findings as a result of this audit.

- *Allowance for Funds Used During Construction (AFUDC)* – Certain AEP jurisdictional utilities' method for computing Allowance for Funds Used During Construction (AFUDC) improperly included Account 219, Accumulated Other Comprehensive Income, in the equity component of the formula and improperly determined the AFUDC rate on a monthly basis. As a result, three jurisdictional utilities over accrued AFUDC on transmission plant by approximately \$6.1 million from 2012 through 2017. The three jurisdictional utilities overbilled wholesale transmission customers for the excessive AFUDC costs included in utility plant that was included in transmission formula rates.
- *Merger-Related Cost* – AEP jurisdictional utilities improperly included approximately \$295,000 of merger-related capital costs in transmission formula rate determinations without first making a compliance filing under section 205 of the Federal Power Act. As a result, wholesale transmission customers were overbilled due to the inclusion of merger costs.
- *Accounting for Charitable Contributions and Penalties* – AEPSC improperly recorded charitable contributions and penalties in various administrative and

In SPP: Public Service Company of Oklahoma; Southwestern Electric Power Company; AEP Oklahoma Transmission Company, Inc.; AEP Southwestern Transmission Company, Inc.; and Transource Missouri, LLC.

In ERCOT: AEP Texas, Inc.

The non-jurisdictional subsidiaries include, but are not limited to: AEP Coal, Inc.; AEP Credit, Inc.; AEP Energy Supply, LLC; and IMT Land Corp.

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general, and operation and maintenance expense accounts, instead of using the appropriate non-operating expense accounts. In addition, AEPSC allocated and billed these costs to the jurisdictional utilities, and these utilities then misclassified and misreported these costs in their FERC Form No. 1 filings. These amounts were included in the jurisdictional utilities' formula rate mechanisms. As a result, the improper accounting for charitable contributions and penalties amounts led to overbillings to wholesale transmission customers.

- *Accounting for Administrative and General Expenses* – AEPSC misclassified various administrative and general labor, membership dues, outside services, and advertising expenses among various administrative and general expense accounts. In addition, AEPSC allocated and billed these costs to the jurisdictional utilities, and these utilities then misclassified these costs in their FERC Form No. 1 filings. As a result, the improper accounting for certain administrative and general expenses led to overbillings to wholesale transmission customers through the jurisdictional utilities' formula rate mechanisms.

D. Summary of Recommendations and Corrective Actions Taken

Below is a summary of audit staff's recommendations to remedy the findings in this report. Detailed recommendations are in Sections IV. Audit staff recommends AEP:

Allowance for Funds Used During Construction

1. Revise and/or implement procedures to ensure its jurisdictional utilities' AFUDC rate calculations are consistent with Order Nos. 561 and 561-A, EPI 3(A)(17), and other applicable Commission requirements.
2. Revise its procedures to ensure that Account 219 is excluded from the equity components used to derive AFUDC rates.
3. Provide training to staff on the revised procedures implemented under recommendations 1 and 2. Provide periodic training in these areas as needed.
4. Adjust plant in service, accumulated depreciation, accumulated deferred income tax, and other affected accounts to remove the over accrual of AFUDC for the periods affected and included in each jurisdictional utility's calculation.
5. Submit correcting journal entries related to the calculation of AFUDC for all the affected AEP jurisdictional utilities to DAA within 60 days of receiving the final audit report. Provide supporting documentation for the amounts of AFUDC over accrued in 2012 through 2018.

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6. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA that explains and details the following: (1) calculation of refunds to wholesale customers since 2013, plus interest; (2) determinative components of the refund; (3) refund method; (4) refund amount; and (5) period(s) in which refunds will be made.
7. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.
8. Refund the amounts disclosed in the refund report to wholesale customers, with interest calculated in accordance with section 35.19a of Commission regulations.

Merger-Related Costs

9. Establish, implement and/or update policies and procedures to ensure AEP jurisdictional utilities accurately exclude merger-related costs from their annual formula rate updates, as required by the hold harmless provisions in the Commission's merger orders.
10. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA that explains and details the following: (1) calculation of refunds and the amount of improper recoveries that resulted from the inclusion of merger transactions in wholesale power and transmission formula rates during the audit period, plus interest on the costs; (2) determinative components of the refund; (3) refund method; and (4) period(s) in which refunds will be made.
11. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.
12. Refund amounts disclosed in the refund report to wholesale power and transmission customers, with interest calculated in accordance with section 35.19a of the Commission's regulations.

Accounting for Charitable Contributions and Penalties

13. Strengthen procedures to record all charitable contributions and penalties in Accounts 426.1, Donations; 426.3, Penalties; and 426.5, Other Deductions.
14. Provide training to staff on the importance of recording charitable contributions and penalties in below the line accounts for regulatory accounting and rate development. Provide periodic training in this area as needed.

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15. Submit a refund analysis, for the jurisdictional utilities within 60 days of receiving the final audit report, to DAA that explains and details the following: (1) calculation of refunds and the amount of improper cost of charitable contributions and penalties recovered that resulted from amounts included in the formula rates since 2013, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) in which refunds will be made.
16. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.
17. Refund amounts disclosed in the refund report to wholesale customers with interest calculated in accordance with section 35.19a of Commission regulations.

Accounting for Administrative and General Expenses

18. Revise procedures to ensure that AEPSC properly accounts for all items reported in its FERC Form No. 60 in accordance with the USofA 18 C.F.R. Part 367.
19. Provide training to staff on the importance of recording administrative and general expenses in the accounts prescribed by the Commission accounting regulations and regulatory rate development. Provide periodic training in this area, as needed.
20. Submit a refund analysis, for the jurisdictional utilities within 60 days of receiving the final audit report, to DAA that explains and details the following: (1) calculation of refunds and the amount of improper administrative and general expenses recovered that resulted from amounts included in the formula rates since 2013, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) in which refunds will be made.
21. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.
22. Refund the amounts disclosed in the refund report to wholesale customers with interest calculated in accordance with section 35.19a of Commission regulations.

E. Compliance and Implementation of Recommendations

Audit staff further recommends that AEP submit for audit staff review the following:

- A plan for implementing the audit recommendations within 30 days after the final audit report is issued;

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- Quarterly reports to DAA describing AEP's progress in completing each corrective action recommended in the final audit report. AEP should make these nonpublic quarterly filings no later than 30 days after the end of each calendar quarter, beginning with the first quarter after submission of the implementation plan, and continuing until AEP completes all recommended corrective actions; and
- Copies of any written policies and procedures developed in response to the recommendations in the final audit report. These documents should be submitted for audit staff's review in the first quarterly filing following their completion.

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II. Background

A. American Electric Power Service Corporation

AEPSC is a centralized service company that provides support services to both affiliated and non-affiliated companies at cost.² The services include management, accounting and financial reporting, tax, legal, engineering, treasury and cash management, regulatory and case management, insurance risk management, customer operations, generation, transmission, distribution, human resources, information technology and telecommunications, and supply chain services. AEPSC also provides operation and maintenance and construction services to its affiliated jurisdictional public utilities. AEPSC recovers its costs of providing support services to the affiliated and non-affiliated companies through monthly billings. The affiliated and non-affiliated companies are directly billed or allocated a portion of AEPSC's costs of providing services based on the benefit(s) the companies derive from such services.

B. AEPSC Cost Accumulation and Allocation

AEPSC accounts for all transactions through a work order system. Expenditures for support services (operation and maintenance and administrative and general expenses) and construction services are accumulated in work orders. AEPSC's work orders include work orders for construction and plant retirement activities, research and development, IT projects, non-regulated activities, and other special projects. The work orders are set up to accumulate all costs of a specific project, and those costs are billed to the companies benefiting from the service.

The costs for services benefiting only one company are directly assigned and are billed 100 percent to that company. AEPSC employees directly assign costs on time and expense reports to the maximum extent practicable to the project for which they provided services. Certain costs, however, are incurred for services that benefit more than one company. When this occurs, the costs are allocated to the benefiting companies using allocation factors. The allocation factors equitably distribute costs that benefit multiple companies and are based on statistics such as number of customers, number of transmission pole miles, number of employees, etc. The allocation factor for any given cost is selected for use because it best reflects the cost driver associated with the services provided.

² AEPSC provides services at cost to two non-affiliated entities: Indiana Kentucky Electric Company and Ohio Valley Electric Company.

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AEPSC's total service costs incurred and billed to both affiliated and non-affiliated companies from 2014 through 2017 totaled \$5.293 billion. AEPSC's affiliated companies received direct and allocated costs of approximately \$5.270 billion which represent 99.57 percent of AEPSC's total costs from 2014 through 2017. The remaining \$22.940 million representing 0.43 percent were billed to non-affiliated companies.

C. Transource and Grid Assurance

In 2012, AEP, in partnership with Great Plains Energy, created Transource Energy, LLC and its affiliates (collectively, Transource) pursuant to the Commission's Order No. 1000 for the development and investment in competitive electric transmission projects across the U.S. AEP owns 86.5 percent of Transource, and Great Plains Energy owns the remaining 13.5 percent. Transource itself formed other entities to bid on or build transmission projects in specific jurisdictions. For example, Transource Maryland, LLC was formed to bid on transmission projects in the PJM territory. The initial costs of forming the subsidiary companies were separately tracked on Transource's books and expensed during the development stage.

When Transource obtains development rights to a project pursuant to Commission Order No. 1000, it requests approval from the Commission through a section 205 application for a regulatory asset to capture pre-commercial expenses. During the audit period, the Commission approved regulatory asset treatment for pre-commercial costs incurred by four Transource entities.³

Grid Assurance, LLC (Grid Assurance) was founded in 2016 by AEP, Berkshire Hathaway Energy, Duke Energy, Edison International, Eversource Energy, and Great Plains Energy. It was formed to enhance grid resiliency and give electric transmission owners faster access to long-lead time critical equipment necessary to recover from catastrophic events that could impact the nation's electric grid. AEP owns 16.67 percent of Grid Assurance, with Berkshire Hathaway Energy, Duke Energy, Edison International, Eversource Energy, and Great Plains Energy owning the remaining 83.33 percent.

Since 2013, AEPSC has provided more than \$14 million in general and administrative services to Transource and Grid Assurance, including accounting and financial reporting, tax, and legal support. The initial accounting for the cost of services provided by AEPSC to Transource and Grid Assurance are recorded in the books of AEPSC in accordance with the Commission accounting regulations. AEPSC records these costs in administrative and general accounts, and operation and maintenance

³ Transource Missouri, LLC (Docket No. ER12-2554-000), Transource West Virginia, LLC (Docket No. ER15-2114-000), Transource Pennsylvania, LLC (Docket No. ER17-419-000), and Transource Maryland, LLC (Docket No. ER17-419-000).

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accounts depending on the nature of services it's providing to Transource and Grid Assurance. These costs are billed to Transource and Grid Assurance either directly or through an allocation method.

D. AEPSC Construction Services

AEPSC provides construction services for the jurisdictional utilities and non-jurisdictional affiliated companies within AEP, for which AEPSC billed approximately \$1.15 billion during the audit period. The construction process starts with each company identifying and budgeting for its construction needs. The corporate planning and budgeting department receives and approves all projects. After approval of a project, the corporate planning and budgeting department opens a project code to track all work orders under the project.

As part of this process, project managers create work orders and request approval from the accounting department. Once approved, interested individuals are notified to begin charging costs to the work order. Costs accumulated in the construction work orders consist of: (1) labor, (2) fringe benefits, (3) incentives, (4) overhead and shared services, (5) outside services, (6) materials and supplies, (7) travel and employee expenses, and (8) other costs. The costs accumulated in the construction work orders do not include AFUDC since AFUDC is computed on the books of the jurisdictional utility subsidiaries.

AEPSC bills construction costs monthly to the affiliated subsidiaries in work orders based on location codes identified during work order creation. The coding ensures subsidiaries benefiting from the construction services are charged the associated construction costs. The affiliated subsidiaries track the monthly costs billed by AEPSC in separate work orders for generation, distribution, and transmission. On a monthly basis, the jurisdictional utilities compute AFUDC using their respective short-term debt, capital structure, and construction work in progress balances.

E. Accounting and Financial Reporting

AEPSC uses a chart of accounts to code and record transactions within its accounting system. The chart of accounts is set up similar to the FERC USofA. For this reason, AEPSC's accounting system allows for direct preparation of the FERC Form Nos. 1 and 60 without reclassification of amounts. The costs incurred by AEPSC are recorded according to the chart of accounts using one of 171 cost component codes. For example, cost component code 11E represents exempt labor costs and cost component code 260 represents professional services. AEPSC bills all costs incurred or accrued on a monthly basis to its affiliated jurisdictional utilities and non-jurisdictional companies.

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The jurisdictional utilities' accounting for the charges received from AEPSC in most cases mirrors that of AEPSC. For example, charges that were recorded by AEPSC as an administrative and general expense are recorded as an administrative and general expense by the jurisdictional utilities. The jurisdictional utilities report all charges from AEPSC on FERC Form No.1 and recover these charges through jurisdictional rates on file with the Commission.

F. Transmission Formula Rates and Cost Recovery

AEP jurisdictional utilities are transmission-owning members in PJM, SPP, and ERCOT. For AEP jurisdictional utilities in PJM and SPP,⁴ these utilities operate their transmission assets under PJM's or SPP's direction pursuant to the PJM and SPP Open Access Transmission Tariffs (OATTs). These utilities recover their costs of owning, operating, and maintaining the transmission system through transmission formula rates approved by the Commission and included in Attachment H of the OATTs. With respect to the AEP transmission and distribution company in ERCOT (that is, AEP Texas), that utility provides energy delivery service in Texas under ERCOT's direction. The utility recovers its costs of providing transmission service through fixed transmission and distribution rates that are subject to the jurisdiction of the Public Utility Commission of Texas.

⁴ AEP jurisdictional utilities in PJM with Commission approved transmission formula rates are Appalachian Power Company; Indiana Michigan Power Company; Kentucky Power Company; Kingsport Power Company; Ohio Power Company; Wheeling Power Company; AEP Appalachian Transmission Company Inc.; AEP Indiana Michigan Transmission Company, Inc.; AEP Kentucky Transmission Company, Inc.; AEP Ohio Transmission Company, Inc.; AEP West Virginia Transmission Company, Inc.; Ohio Valley Electric Corporation; Transource Maryland LLC; Transource Pennsylvania LLC; Transource West Virginia LLC; and Path West Virginia Transmission Company, LLC.

AEP jurisdictional utilities in SPP with Commission approved transmission formula rates are Public Service Company of Oklahoma; Southwestern Electric Power Company; AEP Oklahoma Transmission Company, Inc.; AEP Southwestern Transmission Company, Inc.; and Transource Missouri, LLC.

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III. Introduction

A. Objectives

The audit evaluated AEP and its jurisdictional utilities' compliance with the Commission's: (1) cross-subsidization restrictions on affiliate transactions under 18 C.F.R. Part 35; (2) accounting, recordkeeping, and reporting requirements under 18 C.F.R. Part 366; (3) USofA for centralized service companies under 18 C.F.R. Part 367; (4) preservation of records requirements for holding companies and service companies under 18 C.F.R. Part 368; and (5) FERC Form No. 60 Annual Report requirements under 18 C.F.R. Part 369. The audit also evaluated the associated public utilities' transactions with affiliated companies for compliance with the Commission's accounting requirements under 18 C.F.R. Part 101, the applicable reporting requirements in the FERC Form No. 1 under 18 C.F.R. Part 141, and jurisdictional rates on file. The audit covered the period January 1, 2013 through August 31, 2018.

B. Scope and Methodology

Audit staff performed the following to facilitate testing and evaluation of AEP's compliance with Commission requirements relevant to the audit objectives:

- *Reviewed Public Information* – Conducted an extensive review of public information before commencing the audit. The review provided audit staff with an understanding of AEP's corporate structure, the services it provides, major events affecting operations and finances, mergers, significant contracts, prior audit issues and other key regulatory and business activities. Examples of materials reviewed include AEP's annual reports and SEC Forms 10-K and 10-Q, FERC Form Nos. 1 and 60, prior FERC audit reports, company-related websites, and other relevant regulatory and media sources.
- *Identified Audit Criteria* – Identified audit criteria including Commission rules, regulations, and other requirements necessary to evaluate compliance with the audit objectives.
- *Issued Data Requests* – Issued data requests to collect audit evidence and information. The information related to internal policies, procedures and controls, business practices, risk management, corporate structure, contractual agreements, financial accounting and reporting activities, corporate compliance, regulatory filings, and other pertinent information. The evidence and information were used to test and evaluate compliance with Commission requirements relevant to audit objectives.

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- *Conducted Teleconferences* – Held multiple teleconferences with AEP employees to discuss audit objectives, testing, data request responses, technical and administrative matters, and compliance concerns.
- *Attended Site Visits* – Made three site visits to AEP's headquarters in Columbus, OH to discuss and observe controls and procedures related to audit objectives. For example, to understand AEP's cost allocation procedures and methodologies, audit staff interviewed accounting managers, supervisors, and staff to discuss their duties and responsibilities.
- *Internal Commission Collaboration* – Conferred with other Commission staff on compliance issues to ensure audit findings were consistent with Commission precedent and policy. For example, audit staff spoke with staff from other divisions within the Office of Enforcement, and with technical and legal staff from other Commission offices, including the Office of Energy Market Regulation and the Office of the General Counsel.

Audit staff performed specific actions to evaluate AEP's compliance with the requirements relevant to this audit's objectives. In summary, these actions included:

Cross-Subsidization Restrictions

- Reviewed policies, procedures, and practices relating to the sale of non-power goods and services to understand (1) the types of services provided by AEPSC to the jurisdictional utilities, (2) the contract terms on pricing of non-power goods and services to the jurisdictional utilities, and (3) how transactions are invoiced by AEPSC;
- Interviewed AEP accounting staff to discuss transfers of non-power goods and services and AEPSC's related procedures, policies, and practices as well as Commission regulations on the pricing and accounting for non-power goods and services;
- Reviewed FERC Form No. 1, page 429, for the audit period to determine the dollar amount of transactions received by the jurisdictional utilities and to confirm that the amounts reported by the jurisdictional utilities correspond with the amounts AEPSC reported in its accounting system and FERC Form No. 60;
- Sampled charges for non-power goods and services provided to and received by AEP and its subsidiaries to ensure compliance with Commission pricing rules; and

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- Reviewed affiliate invoices and related detail to verify proper classification of the amounts and compliance with the “at cost” standard.⁵

Financial Reporting

To evaluate compliance with the books, records, and filing requirements, audit staff performed the following as they relate to AEP’s FERC-65 filings, FERC Form No. 1 filings for multiple subsidiaries,⁶ and the FERC Form No. 60 filings for AEPSC:

- Reconciled selected information reported on the FERC Form No. 1 at page 429 to information reported in the AEPSC FERC Form No. 60 to ensure information was reported accurately and consistently;
- Evaluated whether the schedules filed with select FERC Form Nos. 1 and 60 were consistent with the Commission’s reporting requirements and the instructions contained in the forms;
- Reviewed notes to the financial statements and obtained explanations from AEP for any unclear or questionable accounting practices, events, or disclosures; and
- Verified that the FERC Form Nos. 1, 60, and 65 were timely filed. If they were not, then determined whether an extension was granted, obtained an explanation from the companies for the delay, and concluded whether the delay was a systemic or recurring issue.

Accounting

To facilitate the review of AEP’s compliance with Commission accounting requirements, audit staff:

- Reviewed AEPSC’s accounting and financial reporting controls to ensure compliance with Commission requirements. Specifically, audit staff reviewed

⁵ See 18 C.F.R. § 35.44(b)(3) (2018) (“A franchised public utility that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, may only purchase or receive non-power goods and services from a centralized service company at cost.”).

⁶ Audit staff performed a FERC Form No. 1 review of Southwestern Electric Power Company, Appalachian Power Company, and Ohio Power Company.

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controls for selected FERC Form No. 1 and No. 60 pages and AEP's procedures relating to the mapping of costs to FERC accounts;

- Reviewed tracking procedures for a project's life cycle, i.e., procurement, selection of cost allocators, tracking and billing of costs to affiliated companies, and system work order removal.
- Reviewed the account numbering system used by AEPSC and the jurisdictional utilities to record and account for transactions. Audit staff performed this audit step to understand how AEPSC and the jurisdictional utilities internal chart of accounts translates to the Commission's accounting regulations;
- Compared AEPSC's and the jurisdictional utilities' account numbering systems and titles with the USofA and obtained explanations for any unusual differences; and
- Reviewed affiliate jurisdictional utilities' books to ensure their accounting for selected charges conformed to the USofA. Audit staff reviewed how certain transactions are coded and recorded in AEPSC's books compared to how they are recorded in the jurisdictional utilities' books when billed. This was done to ensure transactions are recorded similarly in both the jurisdictional utilities' and AEPSC's books.

Cost Allocation and Billings

To facilitate the review of cost allocation methods and costs billed by AEPSC to its affiliates and non-affiliated companies, audit staff:

- Reviewed cost allocation methods used during the audit period and the components of each method. For example, audit staff compared AEPSC's allocation methods to the methods reported in its cost allocation manual and on its FERC Form No. 60;
- Reviewed and tested supporting details for cost allocation methods, and recalculated a sample of allocation percentages used in 2015. The team also selected allocation methods and verified how frequently AEPSC updated the inputs used to determine the ratios for each affiliate. For example, audit staff confirmed AEPSC updates the number of employees allocation factor monthly using information from its payroll system;

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- Reviewed selected billings from AEPSC to its associated companies and related accounting to ensure compliance with established cost allocation methods; and
- Determined whether the cost allocation methodologies and billing methods used during the audit period were reasonable based upon (1) their explained intended use, (2) supporting analysis, and (3) actual operations.

Preservation of Records

To evaluate compliance with preservation of records requirements for AEP, audit staff:

- Interviewed AEP officials responsible for complying with Commission requirements;
- Reviewed company policies, procedures, and practices for maintaining company records;
- Reviewed controls for preservation of records, including internal record retention audits;
- Performed selective testing of records to ensure AEP followed Commission regulations as well as its own internal policies and procedures; and
- Observed the record retrieval process and documented the steps taken and the effectiveness of the process.

Order 1000 Companies

- Identified all AEP jurisdictional companies created pursuant to the Commission's Order No. 1000 to bid on transmission projects;
- Reviewed the conceptual and legal startup of AEP jurisdictional companies to determine the purpose and objective of the entities. In addition, reviewed the organizational structure to understand AEP's percentage ownership in the Order No. 1000 companies; and
- Reviewed the initial costs incurred by AEP jurisdictional companies created pursuant to Order No. 1000 to determine if the costs were appropriately tracked and accounted for in the books of the new entities.

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Construction Services

- Reviewed AEP construction process to understand construction planning, budgeting, and approval within AEP;
- Evaluated the construction project and work order creation process. This review include evaluation of the initial project and work order request, opening, and closing process;
- Reviewed the functionalization of projects and work orders by transmission, distribution, production, and general. This was done to ensure that construction projects and work orders were appropriately functionalized;
- Reviewed sample construction projects and work orders to identify the various category of costs incurred/accrued in the projects and work orders;
- Reviewed samples and related supporting documentation for selected cost categories to determine if the costs were appropriately recorded in the projects and work orders by the service company; and
- Reviewed sample construction billings by AEPSC to the jurisdictional utilities to determine if the costs were appropriately billed to the jurisdictional utility benefiting from the construction project.

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IV. Findings and Recommendations

1. Allowance for Funds Used During Construction

Certain AEP jurisdictional utilities' method for computing Allowance for Funds Used During Construction (AFUDC) improperly included Account 219, Accumulated Other Comprehensive Income, in the equity component of the formula and improperly determined the AFUDC rate on a monthly basis. As a result, three jurisdictional utilities over accrued AFUDC on transmission plant by approximately \$6.1 million from 2012 through 2017. The three jurisdictional utilities overbilled wholesale transmission customers for the excessive AFUDC costs included in utility plant that was included in transmission formula rates.

Pertinent Guidance

- Order No. 561 states, in part:

[T]he balances of long-term debt, preferred stock, and common equity for use in the formula for the current year will be the balances in such accounts at the end of the prior year....⁷

- 18 C.F.R. Part 101, Electric Plant Instruction No. 3(A)(17), Allowance for Funds Used During Construction states, in part:

Allowance for funds used during construction (Major and Nonmajor Utilities) includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds. . . . The rates shall be determined annually.

Background

Audit staff reviewed AEP jurisdictional utilities' process and policy for computing AFUDC rates and the application of such rates to construction projects. Audit staff

⁷ Order No. 561, *Amendments To Uniform System of Accounts for Public Utilities and Licensees and for Natural Gas Companies (Classes A, B, C and D) to Provide for the Determination of Rate for Computing the Allowance for Funds Used During Construction and Revisions of Certain Schedule Pages of FPC Reports*, 57 FPC 608, at 610, *reh'g denied and clarification granted*, Order No. 561-A, 59 FPC 1340 (1977), *clarification granted*, 2 FERC ¶ 61,050 (1978).

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observed that AEP computed AFUDC rates individually for its jurisdictional utilities using each jurisdictional utility's capital structure, short-term debt, and Construction Work-In-Progress (CWIP) amounts. In addition, the jurisdictional utilities computed AFUDC rates on a monthly basis using actual prior month balances for short-term debt, long-term debt, preferred stock, common stock, and CWIP.

Audit staff reviewed the jurisdictional utilities' AFUDC rate calculations, including determination of the debt and equity rates applied to construction costs to derive capitalized interest and equity AFUDC. Based on audit staff's review, certain AEP jurisdictional utilities improperly included Account 219, Accumulated Other Comprehensive Income, as part of the equity component when computing their AFUDC rates.⁸ In addition, multiple AEP jurisdictional utilities improperly computed AFUDC rates on a monthly basis by using actual prior month balances for long-term debt, preferred stock, and common stock instead of using actual prior year-end balances. The Commission's regulations governing AFUDC require jurisdictional utilities to use the weighted cost for all issuances of long-term debt, preferred stock, and common equity as of the end of the prior year rather than prior-month balances.

Equity Component of AFUDC Rate

Audit staff's review of the equity component of AEP jurisdictional utilities' AFUDC rate calculations revealed that certain of the jurisdictional utilities improperly included balances from Account 219. Account 219 balances reported by the jurisdictional utilities represented unrealized gains and losses attributable to pensions, post-retirement obligations, cash flow hedges related to foreign exchange, and interest rate hedges.

AFUDC includes the net cost of borrowed funds used for construction purposes and an allowed rate on other funds. Since the gains and losses in accumulated other comprehensive income were *unrealized* and not funds available to finance construction, those amounts should not have been considered funds available for construction in deriving the rates used in AFUDC.

⁸ The jurisdictional utilities that included Account 219 in their AFUDC rate calculation are: AEP Texas Inc., Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, Public Service Company of Oklahoma, Southwestern Electric Power Company, and Wheeling Power Company.

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Monthly AFUDC Rate

Audit staff determined that 12 of AEP jurisdictional utilities computed AFUDC monthly by using actual prior month ending balances for long-term debt, preferred stock, and common equity, instead of using those balances from the prior year end. AEP jurisdictional utilities computed AFUDC monthly because of waivers that were granted to four, but not all, jurisdictional utilities within the AEP holding company system.⁹ AEP considered those three waivers to be a blanket authorization by the Commission to compute AFUDC on a monthly basis for all jurisdictional utilities within the AEP holding company system, as well as to use actual prior-month ending balances for long-term debt, preferred stock, and common equity.

AEP jurisdictional utilities' procedure to compute AFUDC rates monthly is inconsistent with the Commission's requirements in Order No. 561 and EPI 3(A)(17). Order No. 561 required jurisdictional utilities to compute AFUDC rates annually using the actual prior year-end book balances for long-term debt, preferred stock, and common equity. The methodology used by AEP jurisdictional utilities contributed to an overstatement of three jurisdictional utilities' AFUDC rates and over-accrual of plant accounts.¹⁰ In addition, only certain AEP jurisdictional utilities were actually granted Commission waiver to compute AFUDC monthly, making it improper for all other jurisdictional utilities to do so without the Commission's authorization.

⁹ See *Central Power and Light Company* (currently, AEP Texas Inc.), Undocketed (Aug. 15, 1984) (letter from FERC Chief Accountant granting waiver to permit monthly calculation of AFUDC rates); *Central and South West Services, Inc.*, Docket No. AC95-35-000 (Jan. 23, 1995) (delegated letter order granting request made on behalf of Public Service Company of Oklahoma and Southwestern Electric Power Company to calculate AFUDC rate on a monthly basis, subject to certain conditions). The Commission granted AFUDC waivers to AEP Texas Inc., Public Service Company of Oklahoma, and Southwestern Electric Power Company to compute the AFUDC rate on a monthly basis. The Commission approved the waivers by stating that, the companies "request is approved, provided that the AFUDC rate is determined using the cost levels and balances for the long-term debt and equity capital components at the end of the prior month, [fn1] and the average short-term debt cost levels and balances and the average construction work in progress balance for the current month." Fn 1: "The common equity rate used should be the last common equity rate approved in the primary rate jurisdiction."

¹⁰ The three jurisdictional utilities whose plant account balances were overstated due to the monthly AFUDC rate computation are AEP Indiana Michigan Transmission Company, Inc.; AEP Ohio Transmission Company, Inc.; and AEP Oklahoma Transmission Co., Inc.

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AEP jurisdictional utilities' method for computing AFUDC rates resulted in overstated transmission plant account balances for the three jurisdictional utilities, due to over accrual of AFUDC from 2012 to 2017, by approximately \$6.1 million. The over-accrual of AFUDC led to overstatements of income statement and balance sheet accounts, which led to overstatement of the transmission revenue requirement and over billings to wholesale transmission customers.

Recommendations

We recommend AEP:

1. Revise and/or implement procedures to ensure its jurisdictional utilities' AFUDC rate calculations are consistent with Order Nos. 561 and 561-A, EPI 3(A)(17), and other applicable Commission requirements.
2. Revise its procedures to ensure that Account 219 is excluded from the equity components used to derive AFUDC rates.
3. Provide training to staff on the revised procedures implemented under recommendations 1 and 2. Provide periodic training in these areas as needed.
4. Adjust plant in service, accumulated depreciation, accumulated deferred income tax, and other affected accounts to remove the over accrual of AFUDC for the periods affected and included in each jurisdictional utility's calculation.
5. Submit correcting journal entries related to the calculation of AFUDC for all the affected AEP jurisdictional utilities to DAA within 60 days of receiving the final audit report. Provide supporting documentation for the amounts of AFUDC over accrued in 2012 through 2018.
6. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA that explains and details the following: (1) calculation of refunds to wholesale customers since 2013, plus interest; (2) determinative components of the refund; (3) refund method; (4) refund amount; and (5) period(s) in which refunds will be made.
7. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.
8. Refund the amounts disclosed in the refund report to wholesale customers, with interest calculated in accordance with section 35.19a of Commission regulations.

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2. Merger-Related Costs

AEP jurisdictional utilities improperly included approximately \$295,000 of merger-related capital costs in transmission formula rate determinations without first making a compliance filing under section 205 of the Federal Power Act. As a result, wholesale transmission customers were overbilled due to the inclusion of merger costs.

Pertinent Guidance

- The Commission's Merger Orders provide in relevant part:

Applicants commit to hold harmless wholesale requirements and transmission customers from any transaction-related costs for a period of five years following the closing of the Transaction. Applicants state that for that five-year period, Applicants will not seek to include transaction-related costs in any wholesale requirements rates or in transmission revenue requirements, except to the extent that they can demonstrate that merger-related savings are equal to or in excess of the transaction related costs included in the rate filing. Applicants' commitment is interpreted to include all transaction-related costs, not only costs related to consummating the transaction. The Commission will be able to monitor the Applicants' hold harmless provision under its authority under section 301(c) of the FPA and the books and records provision of PUHCA 2005, and the commitment is fully enforceable based on the Commission's authority under section 203 of the FPA.¹¹

Background

In 2013, the Commission approved separate but related transactions under Section 203 of the Federal Power Act among AEP jurisdictional utilities.¹² The first transaction

¹¹ *Appalachian Power Co.*, Order Authorizing Disposition of Jurisdictional Facilities, 143 FERC ¶ 62,072, at 64,205 (2013); *Ohio Power Co.*, Order Conditionally Authorizing Disposition of Jurisdictional Facilities, 143 FERC ¶ 61,075, at PP 43-44 (2013), *clarification granted*, 146 FERC ¶ 61,016 (2014) (similar); *Appalachian Power Co.*, Order Authorizing Disposition of Jurisdictional Facilities, 143 FERC ¶ 61,074, at P 37 (2013) (similar).

¹² The following jurisdictional utilities were involved in the three FPA Section 203 transactions: Ohio Power Company (Ohio Power), AEP Generation Resources Inc. (AEP Generation Resources), Appalachian Power Company (Appalachian Power), Kentucky Power Company (Kentucky Power), and Wheeling Power Company (Wheeling Power).

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was approved by the Commission under Docket No. EC13-26-000 for an internal corporate reorganization that resulted in the separation of Ohio Power's generation and power marketing businesses from its transmission and distribution businesses.¹³ In the second transaction, the Commission granted authorization under Docket No. EC13-28-000 for AEP Generation Resources to transfer jurisdictional facilities to Appalachian Power and Kentucky Power Company.¹⁴ These transactions were consummated on December 13, 2013.

The Commission approved the transactions subject to certain conditions, including that AEP jurisdictional utilities were to hold wholesale requirements and transmission customers harmless from any merger transaction-related costs for a period of five years. Pursuant to this condition, all merger transaction-related costs, including costs related to consummating the merger and transition costs (both capital and operating) incurred to achieve merger synergies were required to be excluded from rates charged to wholesale customers.

Merger-Related Capital Costs

Audit staff evaluated the merger transactions for compliance with the hold harmless commitment made by the AEP jurisdictional utilities and imposed on them as a condition of the transactions. Appalachian Power and Wheeling Power incurred both transaction and transition costs (capital and operating). The transaction costs were properly recorded in Account 426.5, Other Deductions. The transition costs were capital in nature and included information technology (IT) costs to support the merger transaction such as work to support finance and accounting changes, modify and integrate systems, move Wheeling Power employees to Appalachian Power, and revise system controls. Appalachian Power recorded merger-related capital costs of approximately \$295,000 in plant in service accounts. The merger-related capital costs recorded in plant in service accounts were amortized for a period of five years to Account 404, Amortization of Limited-Term Electric Plant.

Based on audit staff's review, Appalachian Power appropriately recorded merger-related capital costs in electric plant in service accounts but improperly included them in wholesale requirements and transmission customers' billings. Audit staff points out that, although Appalachian Power properly tracked and recorded the merger-related capital costs on its FERC Form No. 1, it did not prevent such costs from inclusion in the

¹³ *Ohio Power Co.*, 143 FERC ¶ 61,075 (2013), *clarification granted*, 146 FERC ¶ 61,016 (2014).

¹⁴ *Appalachian Power Co.*, 143 FERC ¶ 61,074 (2013).

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wholesale transmission formula rates. The Merger Order required Appalachian Power to make a section 205 filing with the Commission before recovering any merger-related costs from its wholesale customers.¹⁵ By not following the hold harmless commitment in the Commission's Merger Order, Appalachian Power over-billed wholesale transmission customers.

Recommendations

We recommend AEP:

9. Establish, implement and/or update policies and procedures to ensure AEP jurisdictional utilities accurately exclude merger-related costs from their annual formula rate updates, as required by the hold harmless provisions in the Commission's merger orders.
10. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA that explains and details the following: (1) calculation of refunds and the amount of improper recoveries that resulted from the inclusion of merger transactions in wholesale power and transmission formula rates during the audit period, plus interest on the costs; (2) determinative components of the refund; (3) refund method; and (4) period(s) in which refunds will be made.
11. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.
12. Refund amounts disclosed in the refund report to wholesale power and transmission customers, with interest calculated in accordance with section 35.19a of the Commission's regulations.

¹⁵ *Appalachian Power Co.*, 143 FERC ¶ 62,072 at 64,206; *Appalachian Power Co.*, 143 FERC ¶ 61,074 at P 38.

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3. Accounting for Charitable Contributions and Penalties

AEPSC improperly recorded charitable contributions and penalties in various administrative and general, and operation and maintenance expense accounts, instead of using the appropriate non-operating expense accounts.¹⁶ In addition, AEPSC allocated and billed these costs to the jurisdictional utilities, and these utilities then misclassified and misreported these costs in their FERC Form No. 1 filings. These amounts were included in the jurisdictional utilities' formula rate mechanisms. As a result, the improper accounting for charitable contributions and penalties amounts led to overbillings to wholesale transmission customers.¹⁷

Pertinent Guidance

- 18 C.F.R. § 367.4261, Account 426.1, Donations, states:

This account must include all payments or donations for charitable, social or community welfare purposes.

- 18 C.F.R. § 367.4263, Account 426.3, Penalties, states:

This account must include payments by the service company for penalties or fines for violation of any regulatory statutes by the service company or its officials.

¹⁶ AEPSC recorded charitable contributions in the following above the line Accounts: 560, Operation Supervision and Engineering; 563, Overhead Line Expenses (Major only); 566, Miscellaneous Transmission Expenses (Major only); 921, Office Supplies and Expenses; 923, Outside Services Employed; and 930.1, General Advertising Expenses for Associated Companies.

AEPSC also recorded a Department of Homeland Security penalty in Account 921, Office Supplies and Expenses.

¹⁷ AEP jurisdictional utilities recorded the charitable contributions and the Department of Homeland Security penalty in the following FERC USofA Accounts: Accounts 107, Construction Work in Progress; 560, Operation Supervision and Engineering; 566, Miscellaneous Transmission Expenses (Major only); 921, Office Supplies and Expenses; 923, Outside Services Employed; and 930.1, General Advertising Expenses for Associated Companies.

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- 18 C.F.R. § 367.4265, Account 426.5, Other Deductions, states:

This account must include other miscellaneous expenses that are not properly included in service company operations.

Background

Audit staff reviewed selected transactions to determine if AEPSC complied with the Commission's accounting regulations for charitable contributions and penalties. In its review, audit staff determined that AEPSC misclassified charitable contributions and penalties in various administrative and general, and operation and maintenance expense accounts, instead of using the appropriate non-operating expense account, such as Accounts 426.1, 426.3, and 426.5. Specifically, audit staff identified the following misclassifications:

Charitable Contributions

From 2013 to 2016, AEPSC donated \$275,443 to several charitable and nonprofit organizations, including colleges, universities, and other charitable organizations. AEPSC improperly recorded the \$275,443 of charitable contributions in various administrative and general, and operation and maintenance expense accounts. Under the Commission's accounting regulations, these costs should have been recorded in Accounts 426.1, Donations, or 426.5, Other Deductions. Further, AEPSC allocated these costs to jurisdictional utilities that also improperly recorded the costs in various administrative and general, and operation and maintenance expense accounts.¹⁸ These accounts were included in the jurisdictional utilities' formula rate mechanism.

¹⁸ See *Pacific Power & Light Co.*, 11 FERC ¶ 61,073, at 61,104 (1980) (believing that "dues and other payments to community social and service organizations should be classified to the appropriate 426 account"; these expenditures are "unrelated to utility operations" and require "below the line" classification); *Trunkline Gas Co.*, Opinion No. 441, 90 FERC ¶ 61,017, at 61,064 (2000) ("The financial burden of charitable contributions should be borne by the stockholders for whom such contributions are intended to retain customer good will and employee loyalty. Charitable contributions are not operating expenses and bear no relationship to the necessary costs of providing utility service."); *EPGT Texas Pipeline, L.P.*, 99 FERC ¶ 61,295, at 62,249-62,250 (2002), *reh'g denied sub. nom. GulfTerra Texas Pipeline, L.P.*, 106 FERC ¶ 61,184, *reh'g denied*, 109 FERC ¶ 61,350 (2004), *reconsideration granted sub. nom. Enterprise Texas Pipeline L.P.*, 117 FERC ¶ 61,025 (2006) (requiring that charitable contributions be excluded from cost of service in determining interstate rates regardless of what a state

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Penalties

In June of 2015, the Department of Homeland Security imposed a \$20,017 penalty on AEP for violating the Immigration and Nationality Act. The penalty was recorded on the books of AEPSC in Account 921, Office Supplies and Expenses, and included in monthly billings to jurisdictional utilities and non-jurisdictional affiliates. Audit staff's review of the affiliates' books found that the cost of the penalty was recorded in various administrative and general, and operation and maintenance expense accounts by the jurisdictional utilities.¹⁹ Under Commission accounting regulations, penalties are required to be recorded in Account 426.3, Penalties.²⁰ AEPSC and the jurisdictional

utility commission permits for intrastate rates); *Williston Basin Interstate Pipeline Co.*, 95 FERC ¶ 63,008, at 65,095 (2001) (rejecting inclusion of civic and charitable donations in cost of service even where the utility argued the donations were made to local charities benefiting communities served by the utility and “represent[ed] a minimal amount of the overall cost of service”), *aff’d in relevant part, and rev. in part*, 104 FERC ¶ 61,036, at P 65 (2003), *reh’g granted in part and denied in part*, 107 FERC ¶ 61,164 (2004) (even if the ratepayers chose charities to which utility made contributions “and there was such a demonstrable connection between the charities and the ratepayers,” this does not “overcome[] the conclusion that such costs are not operating expenses and bear no relationship to the necessary costs of providing utility service.”); *id.* at P 65 n.89 stating:

Because our policy of denying inclusion of charitable contributions in a pipeline’s cost of service is premised upon such contributions being primarily for the benefit of a company’s shareholders, and that they are not operating expenses and bear no relationship to the necessary costs of providing utility service, a pipeline has a heavy burden indeed in including any amounts for charitable contributions in its cost of service.

¹⁹ The jurisdictional utilities that were billed a portion of the Department of Homeland Security penalty recorded the amounts in Accounts 107, Construction Work in Progress; 921, Office Supplies and Expenses; and 923, Outside Services Employed.

²⁰ See 18 C.F.R. § 367.4263, Account 426.3, Penalties (2018) (“This account must include payments by the service company for penalties or fines”); *see, e.g., Central Illinois Public Service Co.*, 36 FERC ¶ 61,202, at 61,507 (1986) (noting recommendation by staff that company revise its procedures so that penalties are charged to Account 426.3); *Utah Power & Light Co.*, 39 FERC ¶ 61,282, at 61,926 (1987) (explaining that \$345,022 in civil penalties assessed by Mine Safety and Health Administration belonged in Account 426.3, not in Account 151, Fuel Stock costs); *Missouri Public Service*, 40 FERC ¶ 61,121, at 61,338 (1987) (explaining that company improperly accounted for IRS tax penalties assessed for “negligence and intentional disregard of Internal Revenue

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utilities' accounting and recovery of penalties in the transmission formula rate is contrary to the Commission's regulations and orders.

AEPSC's improper accounting for charitable contributions and penalties resulted in AEP jurisdictional utilities also improperly accounting for the costs. AEP jurisdictional utilities' accounting error led to the inclusion of charitable contributions and penalties in transmission formula rate determinations and the jurisdictional utilities overbilling wholesale transmission customers.

Recommendations

We recommend AEPSC:

13. Strengthen procedures to record all charitable contributions and penalties in Accounts 426.1, Donations; 426.3, Penalties; and 426.5, Other Deductions.
14. Provide training to staff on the importance of recording charitable contributions and penalties in below the line accounts for regulatory accounting and rate development. Provide periodic training in this area as needed.
15. Submit a refund analysis, for the jurisdictional utilities within 60 days of receiving the final audit report, to DAA that explains and details the following: (1) calculation of refunds and the amount of improper cost of charitable contributions and penalties recovered that resulted from amounts included in the formula rates

Code," which belonged in Account 426.3); *Revisions to Uniform Systems of Accounts to Account for Allowances Under the Clean Air Act Amendments of 1990 and Regulatory-Created Assets and Liabilities and to Form Nos. 1, 1-F, 2 and 2-A*, Order No. 552, 58 Fed. Reg. 17,982, at 17,999 (1993) ("The Commission continues to believe that the proper account to use for all fines and penalties incurred through noncompliance with the CAAA is Account 426.3, Penalties."); *Kentucky Utilities Co.*, 61 FERC ¶ 62,133, at 63,214 (1992) (company agreed to DAA finding that "payments related to citation issued by Kentucky Occupational Safety and Health Administration" belonged in Account 426.3, not in Account 925, Injuries and Damages); *To All Jurisdictional Public Utilities and Licensees, Natural Gas Companies, Oil Pipeline Companies and Centralized Service Companies*, 119 FERC ¶ 62,167, at 64,455 (2007) (Office Director Order) (noting with respect to underpayment of income taxes that "[t]he Commission's Uniform Systems of Account . . . require interest and penalties on tax deficiencies to be charged to Account 431, Interest Expense and Account 426.3, Penalties, *respectively*. Therefore, public utilities and licensees, natural gas companies and centralized service companies should comply. . . .") (Citation omitted, emphasis added).

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since 2013, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) in which refunds will be made.

16. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

17. Refund amounts disclosed in the refund report to wholesale customers with interest calculated in accordance with section 35.19a of Commission regulations.

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4. Accounting for Administrative and General Expenses

AEPSC misclassified various administrative and general labor, membership dues, outside services, and advertising expenses among various administrative and general expense accounts. In addition, AEPSC allocated and billed these costs to the jurisdictional utilities, and these utilities then misclassified these costs in their FERC Form No. 1 filings. As a result, the improper accounting for certain administrative and general expenses led to overbillings to wholesale transmission customers through the jurisdictional utilities' formula rate mechanisms.

Pertinent Guidance

- 18 C.F.R. § 367.9200, Account 920, Administrative and General Salaries, states in part:

This account must include salaries, wages, bonuses and other consideration for services, with the exception of director's fees paid directly to officers and employees of the service company.

- 18 C.F.R. § 367.9210, Account 921, Office Supplies and Expenses, states in part:
 - (a) This account must include office supplies and expenses incurred in connection with the general administration of service company operations assignable to specific administrative or general departments and not specifically provided for in other accounts....
 - (b) . . . The following items must be included in this account:
 - (7) Membership fees and dues in trade, technical, and professional associations paid by a utility for employees....

- 18 C.F.R. § 367.9230, Account 923, Outside Services Employed states:
 - (a) This account must include the fees and expenses of professional consultants and others for general services with the exception of fees and expenses for outside services of account 928, Regulatory commission expenses (§ 367.9280), and account 930.1, General advertising expenses (§ 367.9301). Separate subaccounts must be provided for auditing, legal, engineering, management consulting fees and any other fees for professional or outside services.
- 18 C.F.R. § 367.9301, Account 930.1, General Advertising Expenses for Associated Companies, states in part:

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(a) This account must include the cost of labor, materials used, and expenses incurred in advertising and related activities, the cost of which by their content and purpose are not provided for elsewhere.

- 18 C.F.R. § 367.9302, Account 930.2, Miscellaneous General Expenses, states in part:

(a) This account must include the cost of expenses incurred in connection with the general management of the service company not provided for elsewhere.

(c) This account must include the following expense items:

(1) Industry association dues for company memberships.

Background

Audit staff reviewed selected transactions to determine if AEPSC complied with the Commission's accounting regulations for administrative and general expenses. In its review, audit staff determined that AEPSC misclassified certain administrative and general costs. Specifically, audit staff identified the following misclassifications:

Description	Accounts Used by AEPSC	Appropriate FERC Account	Amount
A&G Labor Cost	921, 923	920	\$ 8,161,050
Employee Memberships	923	921	\$ 25,667
Company Memberships	921, 923, 930.1	930.2	\$ 696,926
Outside Services	930.2	923	\$ 50,000
A&G Advertising Expense	923	930.1	\$ 53,000

AEPSC allocated and billed these costs to its jurisdictional utilities, and these utilities then misclassified and misreported these costs in their FERC Form No. 1 filings. Under AEP jurisdictional utilities' transmission formula rates under PJM and SPP OATTs, costs reported in Account 930.1 are allocated using a transmission plant allocator to determine the annual transmission revenue requirement and Account 930.2 is directly assigned. All other administrative and general expense accounts are allocated using wages and salary or gross plant allocators to determine the annual transmission revenue requirements. Therefore, misclassifications amongst the administrative and general expense accounts that include Accounts 930.1 and 930.2 impact the transmission revenue requirement and billings to transmission customers. Audit staff determined that AEP jurisdictional utilities' accounting misclassifications impacted the jurisdictional utilities' transmission formula rates, which led to overbillings to transmission customers.

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Recommendations

We recommend AEPSC:

18. Revise procedures to ensure that AEPSC properly accounts for all items reported in its FERC Form No. 60 in accordance with the USofA 18 C.F.R. Part 367.
19. Provide training to staff on the importance of recording administrative and general expenses in the accounts prescribed by the Commission accounting regulations and regulatory rate development. Provide periodic training in this area, as needed.
20. Submit a refund analysis, for the jurisdictional utilities within 60 days of receiving the final audit report, to DAA that explains and details the following: (1) calculation of refunds and the amount of improper administrative and general expenses recovered that resulted from amounts included in the formula rates since 2013, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) in which refunds will be made.
21. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.
22. Refund the amounts disclosed in the refund report to wholesale customers with interest calculated in accordance with section 35.19a of Commission regulations.

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v. AEP's Response to Draft Audit Report



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April 5, 2019

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Via E-mail: Steven.Hunt@ferc.gov

Re: Docket No. FA17-1-000, Draft Audit Report

Dear Mr. Hunt,

On March 21, 2019, American Electric Power Service Corporation ("AEPSC") received the Draft Audit Report issued in the above-referenced docket. The Draft Audit Report contains four findings and 22 recommendations. Pursuant to Section 41.1(b) of the Commission's regulations and consistent with your request, AEPSC is hereby responding to the Draft Audit Report as follows:

1. Allowance for Funds Used During Construction

AEPSC accepts this finding and the related recommendations.

2. Merger-Related Costs

AEPSC accepts this finding and the related recommendations.

3. Accounting for Charitable Contributions and Penalties

AEPSC accepts this finding and the related recommendations.

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Steven D. Hunt
April 5, 2019, p. 2

4. Accounting for Administrative and General Expenses

AEPSC accepts this finding and the related recommendations. AEPSC already has implemented controls that prevent employees from charging labor to Accounts 921 and 923.

As requested at pages 5-6 of the Draft Audit Report, AEPSC will submit within 30 days of the issuance of the final audit report a plan for implementing the audit recommendations. AEPSC also will make quarterly reports of its progress in completing each corrective action and provide copies of any written policies and procedures developed in response to the recommendations.

Sincerely,

s/ Jessica A. Cano

Jessica A. Cano
Senior Attorney
American Electric Power
Service Corporation

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**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-40:

Reference Schedule G-8. Please provide the historical level of outside services expenses in the FERC 900 accounts for the previous three calendar years and the current calendar year to date.

Response No. Staff 5-40:

Please see below for the historical level of outside services expenses in the FERC 900 accounts for the calendar years 2017, 2018, 2019 and YTD Oct 2020.

2017 \$13,159,179

2018 \$ 9,911,495

2019 \$11,696,962

YTD Oct 2020 \$9,051,032

Prepared By: Aaron C. Thomas

Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-41:

Are there any duplications of effort for any of the outside services? Is the same function performed by two or more vendors? If so, please detail.

Response No. Staff 5-41:

There are no duplications of effort for any outside services, nor is the same function performed by two or more vendors. Although SWEPCO may use numerous vendors within the same category, (i.e., advertising services, building maintenance, consulting and financial services, contract labor, legal services, mail services, etc.), vendors perform specific work so there is no duplication of effort.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Lynn M. Ferry-Nelson

Title: Dir Regulatory Svcs

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-42:

Are there any items included in outside services for which the Company has been reimbursed? If yes, please provide documentation.

Response No. Staff 5-42:

There are no expenses included in outside services for which SWEPCO was reimbursed during or after the test year.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Lynn M. Ferry-Nelson

Title: Dir Regulatory Svcs

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-43:

Do any of the outside services represent legislative advocacy expenses? If so, please provide details.

Response No. Staff 5-43:

No legislative advocacy expenses are included in Schedule G-8 (Outside Services). All legislative advocacy expenses are booked to FERC Account 426 and are not included in cost of service.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION

Question No. Staff 5-44:

Do any of the outside services relate to rate case expenses that should be amortized or surcharged? If yes, please provide details.

Response No. Staff 5-44:

SWEPCO is not requesting any recurring outside services related to rate case expenses that should be amortized or surcharged. SWEPCO has a separate rate case expense recommendation contained in the Direct Testimony of Lynn Ferry-Nelson, pages 24 - 42. Please see the response to Staff 5-63 as SWEPCO inadvertently left \$(8,194) of outside services costs in account 928 that should have been excluded.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Prepared By: Tiffany A. Powell Day

Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Lynn M. Ferry-Nelson

Title: Dir Regulatory Svcs

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-45:

Please provide a schedule of all leases and rentals in place during and subsequent to the test year. Include the lease term, monthly payment, address, business purpose, expiration date, and whether or not the lease will be renewed. For each lease, please provide the amount requested in the Company's revenue requirement by FERC account.

Response No. Staff 5-45:

See Staff 5-45 Attachments 1 and 2, both provided electronically on the PUC Interchange. Staff 5-45 Attachment 1 provides lease details for each land related lease. Staff 5-45 Attachment 2 tab titled '04-2019 thru 03-2020 CR DETAILS' shows all lease payments and details requested above for the test period for all other SWEPCO leases.

Prepared By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION

Question No. Staff 5-46:

For each listed in the response to Staff 5-45, provide the test year amount incurred for each lease and any proposed adjustments to each amount.

Response No. Staff 5-46:

See Staff 5-46 Attachment 1, provided electronically on the PUC Interchange, for summary of all SWEPCO leases for the test year amounts for each master lease by category. There were no proposed adjustments to each amount.

Prepared By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-47:

Please identify all changes to accounting policy since the Company's last rate case in Texas in which the Company has changed from expensing certain costs to capitalizing them or vice versa. Provide internal documentation of such policy changes. For each change, identify the number of dollars in each year since the change in accounting policy took place.

Response No. Staff 5-47:

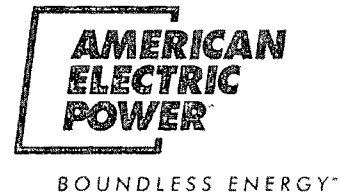
In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07 requiring that an employer report the service cost component of pension and postretirement benefits in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented on the statements of income separately from the service cost component and outside a subtotal of income from operations. In addition, only the service cost component will be eligible for capitalization as applicable following labor. Management adopted ASU 2017-07 effective January 1, 2018. SWEPCO estimates that the adoption of ASU 2017-07 resulted in an approximate total company \$2.9 million, \$2.9 million and \$2.3 million increase in capitalized benefit costs and decrease in O&M benefit expense for the years ended 2018, 2019 and 2020, respectively. See Staff 5-47 Attachments 1 and 2 for internal documentation of the change in accounting.

In November 2019, AEP established a retirement unit for Distribution Cabinets which previously were expensed as minor items of property. A Distribution Cabinet is an enclosure that is used with underground Distribution networks as a way of providing a sectionalizing and tap point for the system and costs about \$1,590 each. Due to the recent change, we estimate that this change did not have a significant impact on test year end plant balances. See Staff 5-47 Attachment 3 for internal documentation of the change in accounting.

In November 2019, AEP established a retirement unit for Distribution Pedestal which previously were expensed as minor items of property. A Distribution Pedestal is an enclosure that is used with underground Distribution networks to house and distribute to multiple connections from the transformer and costs about \$132 each. Due to the recent change, we estimate that this change did not have a significant impact on test year end plant balances. See Staff 5-47 Attachment 4 for internal documentation of the change in accounting.

Prepared By: Michael A. Baird
Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch
Title: Mng Dir Acctng Policy & Rsrch



Date: April 26, 2018

Subject: Accounting for ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

From: Mike Baird/Susannah Hannis

To: File

Background

ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, issued in March 2017, changes the financial reporting of net benefit costs. Net benefit costs include a service component, interest, expected return on plan assets, amortization of prior service cost or credit and amortization of net actuarial loss. Prior to adoption of ASU 2017-07, there was no distinction in the presentation of the service and non-service components on the income statement or balance sheet – all were treated as compensation costs. The new standard requires that only the service cost component be reported in the income statement in the same line item or items as other compensation costs. The non-service components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, with retrospective application. Prospectively, on and after the effective date, only the service cost component is eligible for capitalization when applicable.

We adopted the new accounting standard effective January 1, 2018 for both GAAP and regulatory reporting. For AEP, the non-service components are forecast to be a credit throughout the 10-year forecast period. Although ASU 2017-07 does not impact total benefit cost, based on the forecast, adopting the new standard will decrease benefit expense and increase plant in service.

Accounting Issues

1. What are the regulatory accounting impacts?
2. What process changes are necessary to adopt the new standard?
3. What prior period entries are needed for prior period retrospective presentation?
4. Is restatement of the 2017 10-K necessary after the new standard is adopted in 1st quarter 2018 financial statements?

Discussion and Analysis

1. What are the regulatory accounting impacts?

AEP considered whether the new standard could be adopted for FERC reporting, and participated in an EEI industry task force in 2017 which was evaluating potential regulatory reporting implications. At the August 2017 EEI/AGA-FERC Accounting Liaison meeting, the FERC verbally indicated that companies can elect to change their capitalization policy to capitalize only service cost for FERC accounting and reporting purposes consistent with GAAP or companies can elect to continue to capitalize all the components of net benefit cost (which would cause a FERC/GAAP difference). On December 28, 2017,

the Chief Accountant at FERC issued an accounting guidance letter (Docket No. AI18-1-000) that confirms the earlier verbal guidance. The letter provides the following guidance with respect to FERC reporting:

1. Pension and post-retirement benefits other than pensions should continue to be recorded in their entirety, without disaggregation of the various components, in Account 926.
2. Jurisdictional entities may continue to capitalize the service cost component and non-service cost components or they may elect to capitalize only the service cost component as required by ASU 2017-07. Once a policy is adopted, it must be used consistently in all future periods. After initial adoption of a policy, an entity must write to the Commission for approval of a subsequent change.
3. If a jurisdictional entity capitalizes pension and post-retirement benefits other than pensions on a different basis for FERC and GAAP reporting, it must account for and report deferred taxes to the Commission based on the temporary differences between the basis of assets reported to the IRS and the basis of the assets reported to the Commission.
4. Changes in accounting practice in response to ASU 2017-07 should be disclosed in the quarterly and annual FERC Forms, within the Notes to the Financial Statements (Jeff Hoersdig, Assistant Controller). The classification of non-service components of net benefit cost as Operation Expenses instead of Other Income (Expense) should be added to the list of differences from GAAP. Disclosures should include potential rate impacts, including the effects on rate base and current period expense. Jurisdictional entities should also make similar disclosures on future rate filings, as applicable. [Task 1 – Disclosure in 2018 FERC Forms 3-Q and Form 1]

If the new standard were not adopted for regulatory reporting, regarding capitalization of the service component only, accounting for the FERC/GAAP difference would require significant changes to labor distribution and plant accounting systems, or complex manual tracking. AEP elected to adopt ASU 2017-07 for GAAP and regulatory reporting, which will reduce reporting complexity and risk of error.

For each regulated state jurisdiction, management evaluated whether a regulatory liability would need to be recorded for the transition period from the effective date of the new standard until the new method is approved by the commission. After consultation with rate directors and attorneys it was determined that no regulatory liability is needed, since benefit costs are recovered as cost of service items in base rates.

2. What process changes are necessary to adopt the new standard?

Three new 926, Employee pensions and benefits, accounts and one new 426.5 account were established:

9260042 – SERP Pension Non-Service
9260043 – OPEB Non-UMWA Non-Service
9260062 – Pension Plan – Non-Service
4265039 – Shutdown Coal Co – Non-Service

Account 4265039 is used for the inactive coal companies which have no service component and no FERC reporting requirements.

Beginning in January 2018, the non-service components of pension and OPEB expense will be recorded to the new accounts (Russell Doyle, Manager). [Task 2 – Record non-service cost to new accounts] In the 1st quarter of 2018, the non-service components of pension and OPEB expense for prior periods (2016 and 2017) will be reclassified to the new accounts (Russell Doyle, Manager and Brian Frantz, Manager). There is no impact to non-service cost capitalized in prior periods. [Task 3 – Reclassify prior period non-service component expense to new accounts]

The new 926 accounts and account 4265039 will map as Other Operation for the 2017 10-K, and effective for 2018 reporting, with retrospective presentation, Financial Reporting (Neal Hartley, Manager) will change the mapping to a new income statement line in Other Income (Expense). [Task 4 – Change account mapping]. Financial Reporting (Mike Piatt, Assistant Controller) will present the new accounts on a new separate income statement line item titled “Other components of net periodic benefit cost” beginning with 1st quarter 2018 financial statements. [Task 5 – Income statement presentation] If not presented in a separate line, the income statement line would need to be disclosed.

The AEP system companies that participate in AEP’s pension and OPEB plans account for their participation under multiple-employer plan accounting, with each subsidiary accounting for its interest in the plans using actuarial measures under ASC 715-30 and ASC 715-60. For stand-alone reporting, the subsidiaries reflect only the benefit cost for their employees in account 926 and in the benefit footnote; AEPSC employees’ benefit costs that are allocated to the subsidiaries are not recorded in account 926 on the subsidiary or included in the subsidiary benefit footnotes.

Effective with the adoption of ASU 2017-07 in January 2018, the non-service components of AEPSC employees’ benefit costs will be billed to the operating companies in account 923, Outside services employed (Brian Frantz, Manager), and will be reported as part of operating expenses in the stand alone subsidiary financial statements. [Task 6 – New AEPSC work order so non-service components are not included in fringe] In AEP consolidated financial statements, the non-service components for all employees, both AEPSC and subsidiary employees, will be reported outside of operating income.

3. What prior period entries are needed for prior period retrospective presentation?

Prior period entries were recorded in 2014 and 2015 on an annual basis and in 2016 and 2017 by month (journal entries available upon request).

Prior period reclassifications were made on the companies/segments where the costs were originally reported, so there is no impact between segments. Segment disclosure includes Income (Loss) from Continuing Operations, Income (Loss) from Discontinued Operations, Net of Tax, and Net Income (Loss). These line items are not impacted by ASU 2017-07.

4. Is restatement of the 2017 10-K necessary after the new standard is adopted in 1st quarter 2018 financial statements?

We considered quantitative and qualitative factors regarding retrospective presentation of ASU 2017-07 and determined the impact is immaterial to AEP Consolidated and its subsidiary registrants for 2015, 2016 and 2017. The immaterial retrospective change will be disclosed in the 1st quarter 2018 10-Q, but a revised 2017 10-K will not be filed. The factors to consider based on SEC Topic 1M on Materiality are evaluated below. Reference Attachment 1 for a quantitative analysis.

Topic 1M Item	Response
➤ Whether the misstatement arises from an item capable of precise measurement or whether it arises from an estimate and, if so, the degree of imprecision inherent in the estimate.	➤ Adoption of the new accounting standard does not impact measurement of the reported amount, only the income statement line item presentation changes.
➤ Whether the misstatement affects the registrant’s	➤ Adoption of the new accounting standard does

compliance with loan covenants or other contractual requirements	not affect the registrants' compliance with loan covenants or other contractual requirements.
➤ Whether the misstatement masks a change in earnings or other trends.	➤ Adoption of the new accounting standard does not mask a change in earnings or other trends. There is no impact on net income.
➤ Whether the misstatement hides a failure to meet analysts' consensus expectations for the enterprise.	➤ Adoption of the new accounting standard does not hide a failure to meet analysts' consensus expectations.
➤ Whether the misstatement changes a loss into income or vice versa.	➤ Adoption of the new accounting standard does not impact net income.
➤ Whether the misstatement concerns a segment or other portion of the registrant's business that has been identified as playing a significant role in the registrant's operations or profitability.	➤ Adoption of the new accounting standard does not impact segment reporting.
➤ Whether the misstatement affects the registrant's compliance with regulatory requirements.	➤ Adoption of the new accounting standard does not affect the registrants' compliance with regulatory requirements.
➤ Whether the misstatement has the effect of increasing management's compensation — for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation.	➤ Adoption of the new accounting standard does not increase management's compensation.
➤ Whether the misstatement involves concealment of an unlawful transaction.	➤ Adoption of the new accounting standard is required under GAAP and does not involve concealment of an unlawful transaction.

Disclosure in Note 2

In March 2017, the FASB issued ASU 2017-07 requiring that an employer report the service cost component of pension and postretirement benefits in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the statements of income separately from the service cost component and outside of a subtotal of income from operations. In addition, only the service cost component will be eligible for capitalization.

Management adopted ASU 2017-07 effective January 1, 2018. Presentation of the non-service components on a separate line outside of operating income was applied on a retrospective basis, using the amounts disclosed in the benefit plan note for the estimation basis as a practical expedient. Capitalization of only the service cost component was applied on a prospective basis.

Cash Flow Impacts

ASU 2017-07 changes the income statement presentation and capitalization of non-service pension and OPEB costs. There is no impact on the statement of cash flows.

Income Tax Impact

No calculation changes are necessary for tax. The impact on tax will be derived from the capitalization ratio change, however, the new rates will be used as provided with no new process needed.

Internal Controls

In conjunction with implementation of ASU 2017-07, the sufficiency of AEP's existing internal controls was evaluated. Given that the data required for adoption was already available in actuarial reports, and prior year information was disclosed as part of the prior year audited financial statements, the risks related to adoption are around the accounting conclusions made (policy related decisions) and related adjustments to journal entries and financial statement mapping. Below are relevant existing controls that address these risks:

Risks	Control Number	Control Activity
The Company's accounting policy and financial statement presentation are not in compliance with U.S. GAAP.	FR.TP.NRJ.CO2.R15.CA2.6	Accounting Policy and Research (AP&R) timely evaluates significant non-routine transactions or events and documents the accounting treatment via accounting implications memos. The memos are reviewed and approved by the Director (or above) of Accounting Policy & Research and an AEP TAX Director (or above) and maintained by AP&R. The instructions in the memo are communicated to required personnel for timely recordation through FR.CL.CL.CO2.R28.CA2.6 - FRCLCL2_6 Memo Implementation.
Accounting conclusions and updates are not communicated and implemented in a timely accurate manner.	FR.CL.CL.CO2.R28.CA2.6	Each month, a Director will verify that all Memo Tasks on the Memo Log which are expected to have been completed are marked as complete.
	FR.AL.WO.CO1.R1.CA1.1	Each work order is routed for approval in a lotus notes database. The work order information is reviewed by the subject matter expert (in most cases this is the preparer's supervisor) and then by Regulated Accounting personnel to ensure proper allocation as evidenced by the approvals in lotus notes.

	FR.FR.IR.CO2.R31.CA2.14	<p>Each month, Financial Reporting sends an email to the ACCT CLOSING GROUP with an attached New Account Number Listing spreadsheet. This spreadsheet identifies all new accounts created during the month as well as the account's presentation placement for the SEC Balance Sheet, SEC Income Statement, and SEC Cash Flow Statement. The group whom requested the new account number reviews the listing and sends an email back to Financial Reporting either agreeing/disagreeing with Financial Reporting's recommended presentation placement for the SEC Balance Sheet and SEC Income Statement. If the requesting group is not in agreement with the presentation placement, the correct presentation assignment is provided to the Financial Reporting group via e-mail. For SEC Cash Flow Statement Reporting, this communication is for informational purposes only; however, if the account requesting group does not agree with Financial Reporting's proposed placement, the two groups work together to ensure agreement on the account's presentation assignment.</p>
	FR.TP.SJE.CO2.R14.CA2.4UECA	<p>Journal entries are processed by ledger accountants and reviewed and physically approved by the applicable Sr. Accountants, G/L Supervisors or Managers. In addition, standard journal entry listings are maintained by each Accounting Manager, Supervisor, or Administrator to ensure all standard journal entries have been posted. NOTE- Exceptions: Journal entries fed into the General Ledger by a feeder system are approved by the group entering the entry into the feeder system. Allocation journal entries are not approved, rather, the set up of the allocation is approved. In addition, journal entry approvers will only post journal entries with proper supporting documentation specific to the journal entry type (e.g. spreadsheet, memo, or adequate explanation in the journal description field.)</p>

	FR.TP.SJE.CO2.R14.CA2.4REG/CORP	Journal entries are processed by ledger accountants and reviewed and physically approved by the applicable Sr. Accountants/Accounting Principals, G/L Supervisors or Managers. In addition, standard journal entry listings are maintained, per the Journal Entry Preparation, Review and Approval policy, by each Accounting Manager, Supervisor, or Administrator to ensure all standard journal entries have been posted. NOTE- Exceptions: Journal entries fed into the General Ledger by a feeder system are approved by the group entering the entry into the feeder system. Allocation journal entries are not approved, rather, the set up of the allocation is approved. In addition, journal entry approvers will only post journal entries with proper supporting documentation specific to the journal entry type (e.g. spreadsheet, memo, or adequate explanation in the journal description field.)
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cc:	Jim Bacha	Andrea Moore
	Tom Brice	Steve Nourse
	Joe Buonaiuto	Kelly Pearce
	Will Castle	Mike Piatt
	Noelle Coates	Annie Pribisko
	John Crespo	Andy Reis
	Pam Flemming	Rhonda Ryan
	Brian Frantz	John Scalzo
	Hector Garcia	Emily Shuart
	Jeff Hoersdig	Larry Sullivan
	Jon Holtzmuller	Scott Travis
	Marc Hunter	Julie Williams
	James Llende	Andrew Williamson
	Brian Lysiak	Ranie Wohnhas
	Matt McKenzie	PwC
	Tom Mitchell	

Prior Period Materiality Assessment

	2017 Operating Income		
	As Issued	Restated	Percentage
AEP Consolidated	3,570,348,364	3,526,511,672	-1.2%
APCo	695,455,243	690,215,246	-0.8%
AEP Texas	419,722,074	416,136,285	-0.9%
I&M	353,293,451	347,208,841	-1.8%
KPCo	95,278,643	93,657,446	-1.7%
OPCo	570,245,340	565,793,374	-0.8%
PSO	174,907,328	171,473,546	-2.0%
SWEPCo	307,683,724	304,000,562	-1.2%
Kingsport	7,964,686	7,875,828	-1.1%
WPCo	57,716,474	57,216,013	-0.9%
AEG	385,193,561	384,623,613	-0.1%
Dolet Hills	1,301,225	1,750,532	25.7%

	2016 Operating Income		
	As Issued	Restated	Percentage
AEP Consolidated	1,200,134,644	1,158,606,983	-3.6%
APCo	743,290,417	738,286,691	-0.7%
AEP TCC	308,443,829		
AEP TNC	75,097,539		
AEP Texas	383,541,368	380,223,495	-0.9%
I&M	381,607,429	374,336,174	-1.9%
KPCo	118,704,546	117,231,543	-1.3%
OPCo	508,467,500	504,085,097	-0.9%
PSO	198,641,989	195,509,696	-1.6%
SWEPCo	321,122,557	317,445,960	-1.2%
Kingsport	2,113,910	2,018,093	-4.7%
WPCo	53,071,185	52,614,386	-0.9%
AEG	68,485,875	68,318,557	-0.2%
Dolet Hills	974,356	1,415,064	31.1%

	2015 Operating Income		
	As Issued	Restated	Percentage
AEP Consolidated	3,640,533,393	3,600,239,456	-1.1%
APCo	710,790,549	705,714,736	-0.7%
AEP TCC	257,286,456		
AEP TNC	59,213,761		
AEP Texas	316,500,217	312,771,426	-1.2%
I&M	369,917,770	363,022,061	-1.9%
KPCo	80,755,546	79,307,683	-1.8%
OPCo	460,801,687	456,342,232	-1.0%
PSO	193,265,636	190,049,885	-1.7%
SWEPCo	369,208,411	365,300,323	-1.1%
Kingsport	(1,404,810)	(1,506,027)	6.7%
WPCo	41,458,293	40,999,982	-1.1%
AEG	16,506,567	17,296,686	4.6%



REQUEST FOR ADDITION TO AEP'S LIST OF RETIREMENT UNITS

Request:

Date: 11/7/2019

Name of Requester: Kelly Stephens

Department of Requester: Distribution Work Management

Description of Retirement Unit to add (short description – 30 characters or less):
Enclosure, Cabinet

Plant Account #: 367 - Underground Conductors and Devices

Per Item Cost of Material: \$1,590.00 each

Estimated Life of Requested Item: 20-30 years

Purpose of Item: Distribution cabinets provide a low-cost, safe, aesthetically pleasing means of providing a sectionalizing and tap point for underground distribution systems. This item is covered in Distribution Standard 2401, 2402 and 2402-3.

Is the Requested Item a Part of an Existing Retirement Unit?

No. Currently the costs for installing or removing a distribution cabinet are mapped to Internal RU -- 6722 – Conductor Adder. This is mapped to Property Group ID 176 and Retirement Unit ID 528177, which is a Minor unit.

What is the Trigger for Classifying the Item as a Retirement Unit?

When these items were first introduced, they were small less expensive items that were only used in rare circumstances. Over the years, they have become more complex and expensive making them much more than a minor item.

Frequency of Installation (will the requested item be installed at many AEP locations – estimate how many AEP locations will also install this item):

Cabinets are used by all AEP distribution companies. Based on STORMS usage data for 2018: 1056 cabinets were installed and 190 cabinets were removed.

List Similar Retirement Units (if applicable): None

Attach Supporting Documents (if any): None

Requested By

Kelly Stephens (see attached)

Requesting Dept Approval

Pam Ellis (see attached)



REQUEST FOR ADDITION TO AEP'S LIST OF RETIREMENT UNITS

Approval:

What are the Pros and Cons of Adding the Item?

A Distribution Cabinet is an enclosure that is used with underground Distribution networks as a way of providing a sectionalizing and tap point for the system. As more underground networks became more prevalent in the AEP system, so did the more frequent use of Cabinets.

A Distribution Cabinet meets the retirement unit criteria of being relatively expensive (approximately \$1,590 each), having a relatively long useful life (20-30 years), and being separately identifiable units of property. Although a Distribution Cabinet meets the criteria for becoming a retirement unit, this type of property is not new to AEP and is currently considered a minor item of property. Past practice has been to expense the cost of installation and removal of this type of property.

According to Distribution, the installation of a Distribution Cabinet was rare because underground networks were not as prevalent as they have become in recent years. Additionally, the size and types of Cabinets have changed since introduced to AEP and the cost has increased as networks have become more complex. For these reasons, I recommend establishing a new retirement unit for an Enclosure, Cabinet.

What Resources need to be added for the Change (e.g. Property Accounting)?

Similar to when cross-arms and capacitor switches were added to the retirement unit catalog, a coordinated effort taking the following actions will need to occur between Property Accounting and Distribution (**due no later than 12/31/2019**):

1. Determine the quantity that exist for each company/state/plant account
2. Determine the trended original cost for each year
3. Unbundle the original cost by vintage year, out of the unit where the investment is included (NOT REDUCING QUANTITY for the retirement unit where the transfer comes out of).

This is done by OAJ065 CPR transfers.

After the entry is posted to the CPR, go into each new CPR Asset ID created for the unbundled assets; and add the related quantities that apply to each row.

What System Changes need to be made for this Change? None

Property Accounting Preparer/Approval

12/4/19

Accounting Policy & Research Approval

12/5/19

Chief Accounting Officer Approval

12/5/19

If Not Approved, List Reason(s):



REQUEST FOR ADDITION TO AEP'S LIST OF RETIREMENT UNITS

Request: Establish retirement unit for distribution cabinets

Date: 11/7/2019

Name of Requester: Kelly Stephens

Department of Requester: Distribution Work Management

Description of Retirement Unit to add (short description — 30 characters or less):
Enclosure, Cabinet

Plant Account #: 367 – Underground Conductors and Devices

Per Item Cost of Material: \$1590.00 each

Estimated Life of Requested Item: 20-30 years

Purpose of Item: Distribution cabinets provide a low-cost, safe, aesthetically pleasing means of providing a sectionalizing and tap point for underground distribution systems. This item is covered in Distribution Standard 2401, 2402 and 2402-3.

Is the Requested Item a part of an Existing Retirement Unit? No. Currently the costs for installing or removing a distribution pedestal are mapped to Internal RU = 6722 – Conductor Adder. This is mapped to Property Group ID 176 and Retirement Unit ID 528177, which is a Minor unit.

What is the Trigger for Classifying the Item as a Retirement Unit? When these items were first introduced, they were small less expensive items that were only used in rare circumstances. Over the years, they have become more complex and expensive making them much more than a minor item.

Frequency of Installation (will the requested item be installed at many AEP locations — estimate how many AEP locations will also install this item):

Cabinets are used by all AEP distribution companies. Based on STORMS usage data for 2018: 1056 cabinets were installed and 190 cabinets were removed.

List Similar Retirement Units if applicable: None:

Attach Supporting Documents (if any): None.

Requested By

Kelly Stephens

11/7/19

Requesting Dept Approval

Pamela F Ellis, Director, Distribution
Engineering Services

Page 2 of 3



REQUEST FOR ADDITION TO AEP'S LIST OF RETIREMENT UNITS

Approval:

What are the Pros and Cons of Adding the Item?

What Resources Need to be Added for the Change (e.g. Property Accounting)?

What System Changes Need to be Made for this Change?

Property Accounting Approval

Accounting Policy & Research Approval

Chief Accounting Officer Approval

If Not Approved, List Reason(s):



REQUEST FOR ADDITION TO AEP'S LIST OF RETIREMENT UNITS

Request:

Date: 11/7/2019

Name of Requester: Kelly Stephens

Department of Requester: Distribution Work Management

Description of Retirement Unit to add (short description -- 30 characters or less):
Enclosure, Pedestal

Plant Account #: 367 - Underground Conductors and Devices

Per Item Cost of Material: \$132.00 each

Estimated Life of Requested Item: 20-30 years

Purpose of Item: A secondary pedestal houses connectors for secondary wires fed by the secondary side of a transformer. This item is covered in Distribution Standard 2411.

Is the Requested Item a Part of an Existing Retirement Unit?

No. Currently the costs for installing or removing a distribution pedestal are mapped to Internal RU = 6722 - Conductor Adder. This is mapped to Property Group ID 176 and Retirement Unit ID 528177 which is a Minor unit.

What is the Trigger for Classifying the Item as a Retirement Unit?

When these items were first introduced, they were small less expensive items that were only used in rare circumstances. Over the years, they have become more complex and common making them much more than a minor item.

Frequency of Installation (will the requested item be installed at many AEP locations -- estimate how many AEP locations will also install this item):

Pedestals are used by all AEP distribution companies. Based on STORMS usage data for 2018: 5215 pedestals were installed and 1668 pedestals were removed.

List Similar Retirement Units (if applicable): None

Attach Supporting Documents (if any): None

Requested By

Kelly Stephens (see attached)

Requesting Dept Approval

Pam Ellis (see attached)



REQUEST FOR ADDITION TO AEP'S LIST OF RETIREMENT UNITS

Approval:

What are the Pros and Cons of Adding the Item?

A Distribution Pedestal is an enclosure that is used with underground Distribution networks to house and distribute to multiple connections from the transformer. As more underground networks became more prevalent in the AEP system, so did the more frequent use of Pedestals

A Distribution Pedestal meets the retirement unit criteria for Distribution of having a relatively long useful life (20-30 years), and being separately identifiable units of property. The \$1,000 threshold for establishing a retirement unit does not apply to Transmission or Distribution types of property. Although a Distribution Pedestal meets the criteria for becoming a retirement unit, this type of property is not new to AEP and is currently considered a minor item of property. Past practice has been to expense the cost of installation and removal of this type of property.

According to Distribution, the installation of a Distribution Pedestal was rare because underground networks were not as prevalent as they have become in recent years. Additionally, the size and types of Pedestals have changed since introduced to AEP and the cost has increased as networks have become more complex. For these reasons, I recommend establishing a new retirement unit for an Enclosure, Pedestal (including Secondary Pedestals).

What Resources need to be added for the Change (e.g. Property Accounting)?

Similar to when cross-arms and capacitor switches were added to the retirement unit catalog, a coordinated effort taking the following actions will need to occur between Property Accounting and Distribution (**due no later than 12/31/2019**):

1. Determine the quantity that exist for each company/state/plant account
2. Determine the trended original cost for each year
3. Unbundle the original cost by vintage year, out of the unit where the investment is included (NOT REDUCING QUANTITY for the retirement unit where the transfer comes out of).
This is done by OAJ065 CPR transfers.
4. After the entry is posted to the CPR, go into each new CPR Asset ID created for the unbundled assets; and add the related quantities that apply to each row.

What System Changes need to be made for this Change? None

Property Accounting Preparer/Approval

Jason Cas

12/4/19

Accounting Policy & Research Approval

Mike Baniel

12/5/1

Chief Accounting Officer Approval

John M. Bort

12/5/1

If Not Approved, List Reason(s):



REQUEST FOR ADDITION TO AEP'S LIST OF RETIREMENT UNITS

Request: Establish retirement unit for distribution pedestals

Date: 11/7/2019

Name of Requester: Kelly Stephens

Department of Requester: Distribution Work Management

Description of Retirement Unit to add (short description — 30 characters or less):
Enclosure, Pedestal

Plant Account #: 367 – Underground Conductors and Devices

Per Item Cost of Material: \$132.00 each

Estimated Life of Requested Item: 20-30 years

Purpose of Item: A secondary pedestal houses connectors for secondary wires fed by the secondary side of a transformer. This item is covered in Distribution Standard 2411.

Is the Requested Item a part of an Existing Retirement Unit? No. Currently the costs for installing or removing a distribution pedestal are mapped to Internal RU = 6722 – Conductor Adder. This is mapped to Property Group ID 176 and Retirement Unit ID 528177 which is a Minor unit.

What is the Trigger for Classifying the Item as a Retirement Unit? When these items were first introduced, they were small less expensive items that were only used in rare circumstances. Over the years, they have become more complex and common making them much more than a minor item.

Frequency of Installation (will the requested item be installed at many AEP locations — estimate how many AEP locations will also install this item):

Pedestals are used by all AEP distribution companies. Based on STORMS usage data for 2018: 5215 pedestals were installed and 1668 pedestals were removed.

List Similar Retirement Units if applicable: None:

Attach Supporting Documents (if any): None.

Requested By

Kelly Stephens

11/7/19

Requesting Dept Approval

Pamela F Ellis, Director, Distribution
Engineering Services



REQUEST FOR ADDITION TO AEP'S LIST OF RETIREMENT UNITS

Approval:

What are the Pros and Cons of Adding the Item?

What Resources Need to be Added for the Change (e.g. Property Accounting)?

What System Changes Need to be Made for this Change?

Property Accounting Approval

Accounting Policy & Research Approval

Chief Accounting Officer Approval

If Not Approved, List Reason(s):

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-48:

Has the Company included any amounts for carrying costs associated with affiliate or shared assets that have been charged by an affiliate in its revenue requirement? If so, please provide by FERC account the amount in total, amount that is debt based, and the amount considered equity return.

Response No. Staff 5-48:

The carrying charges are expenses billed to SWEPCO from AEPSC, related to AEPSC's occupancy/usage of other AEP affiliates' buildings. These charges are incurred by AEPSC, and therefore, must be billed to the affiliates benefitting from those charges.

Please see Staff 5-48 Attachment 1 for carrying costs associated with affiliate assets that have been charged by AEPSC to SWEPCO in cost of service accounts. Attachment has amounts by FERC account, total carrying costs, amount that is debt based, and the amount considered equity. Please see Staff 5-48 Attachment 2 for carrying costs associated with SWEPCO assets that have been charged by SWEPCO to affiliates, which would be included, as a reduction, in SWEPCO's revenue requirement.

Prepared By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Brian J. Frantz

Title: Dir Accounting

SOUTHWESTERN ELECTRIC POWER COMPANY**Carrying Costs associated with Affiliate Assets by FERC Acct****Billed from Affiliates to SWEPCO in Cost of Service Accounts****For The Test Year Ended March 31, 2020**

FERC Acct	Total Carrying Costs	Debt Component	Equity Component
5000 - Oper Supervision & Engineering	101,385	26,738	74,648
5010 - Fuel	6,612	1,744	4,867
5020 - Steam Expenses	708	183	526
5050 - Electric Expenses	33	9	24
5060 - Misc Steam Power Expenses	7,441	1,960	5,481
5100 - Maint Supv & Engineering	3,060	808	2,252
5110 - Maintenance of Structures	765	202	563
5120 - Maintenance of Boiler Plant	2,001	527	1,474
5130 - Maintenance of Electric Plant	651	166	484
5140 - Maintenance of Misc Steam Plt	246	62	184
5280 - Maint Supv & Engineering	37	10	27
5290 - Maintenance of Structures	0	0	0
5300 - Maint of Reactor Plant Equip	2	1	2
5310 - Maintenance of Electric Plant	0	0	0
5350 - Oper Supervision & Engineering	51	13	37
5370 - Hydraulic Expenses	6	2	5
5390 - Misc Hydr Power Generation Exp	6	2	4
5450 - Maint of Misc Hydraulic Plant	30	8	22
5510 - Maint Supv & Engineering	(1)	(0)	(1)
5530 - Maintenance of Generating Plt	73	19	54
5560 - Sys Control & Load Dispatching	5,847	1,544	4,303
5570 - Other Expenses	17,820	4,705	13,115
5600 - Oper Supervision & Engineering	203,637	48,018	155,619
5612 - Load Dispatch-Mntr&Op TransSys	73,937	18,889	55,048
5615 - Reliability,Plng&Stds Develop	17,052	4,095	12,957
5620 - Station Expenses	82	22	61
5630 - Overhead Line Expenses	355	77	278
5660 - Misc Transmission Expenses	31,152	7,552	23,600
5670 - Rents	2	0	1
5680 - Maint Supv & Engineering	219	47	172
5690 - Maintenance of Structures	3	1	2
5691 - Maint of Computer Hardware	895	228	666
5692 - Maint of Computer Software	4,584	1,118	3,466
5700 - Maint of Station Equipment	4,762	1,215	3,547
5710 - Maintenance of Overhead Lines	587	125	461
5730 - Maint of Misc Trnsmission Plt	22	5	17
5800 - Oper Supervision & Engineering	23,495	6,115	17,380
5820 - Station Expenses	8,968	2,282	6,686
5830 - Overhead Line Expenses	6	1	4
5840 - Underground Line Expenses	307	81	226
5860 - Meter Expenses	2,555	674	1,880
5880 - Miscellaneous Distribution Exp	17,854	4,580	13,274
5890 - Rents	1,140	361	779
5900 - Maint Supv & Engineering	188	50	138
5920 - Maint of Station Equipment	807	210	597
5930 - Maintenance of Overhead Lines	1,466	329	1,137
5970 - Maintenance of Meters	3	1	2
9010 - Supervision - Customer Accts	784	207	577
9020 - Meter Reading Expenses	1,330	351	978
9030 - Cust Records & Collection Exp	121,180	31,998	89,182
9050 - Misc Customer Accounts Exp	250	66	184
9070 - Supervision - Customer Service	1,094	288	806
9080 - Customer Assistance Expenses	492	130	362
9100 - Misc Cust Svc&Informational Ex	684	181	504
9120 - Demonstrating & Selling Exp	20	5	15
9200 - Administrative & Gen Salaries	463,865	122,061	341,804
9210 - Office Supplies and Expenses	2,030	536	1,494
9230 - Outside Services Employed	32	8	24
9250 - Injuries and Damages	124	33	91
9260 - Employee Pensions & Benefits	330	82	247
9280 - Regulatory Commission Exp	13,202	3,486	9,716
9301 - General Advertising Expenses	2	1	2
9302 - Misc General Expenses	15,105	3,871	11,234
9350 - Maintenance of General Plant	3,056	807	2,249
Grand Total	1,164,427	298,889	865,537

SOUTHWESTERN ELECTRIC POWER COMPANY

Carrying Costs associated with Affiliate Assets by FERC Acct

Billed from SWEPCO to Other Affiliates

For The Test Year Ended March 31, 2020

<u>FERC Acct</u>	<u>Total Carrying Costs</u>	<u>Debt Component</u>	<u>Equity Component</u>
4540 - Rent From Electric Property	(530,383 51)	(148,066 84)	(382 316 67)

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-49:

Please provide the rate of return, cost of equity, and cost of debt utilized in determining the carrying costs associated with affiliate costs or shared assets that have been charged to the Company by an affiliate.

Response No. Staff 5-49:

The carrying costs associated with affiliate assets that have been charged to SWEPCO by AEPSC have an average rate of return of 9.28%, a weighted average cost of equity of 6.76%, and a weighted average cost of debt of 2.52%.

The carrying costs associated with SWEPCO assets that have been charged from SWEPCO to affiliates have an average rate of return of 8.96%, a weighted average cost of equity of 6.51%, and a weighted average cost of debt of 2.45%.

Prepared By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Brian J. Frantz

Title: Dir Accounting

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-50:

Refer to the testimony of Monte A. McMahon at page 27, Figure 4. Please provide the AEPSC generation O&M affiliate charges to SWEPCO for each category (VP Eng. Services, etc.) by FERC account separately for each month January 2017 through the present. Provide a detailed explanation for the large increase in calendar year 2019.

Response No. Staff 5-50:

See Staff 5-50 Attachment 1, provided electronically on the PUC interchange, for the monthly AEPSC O&M costs, by FERC Account, for the period January 2017 through September 2020. The primary driver for the 2019 increase in AEPSC O&M expense was an increase in Account 5000 charges.

Prepared By: Tara D. Beske

Title: Regulatory Consultant Staff

Sponsored By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Monte A. McMahon

Title: VP Generating Assets SWEPCO

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-51:

Refer to the testimony of Brian J. Frantz at page 43, Table 12 and the testimony at lines 13–19. Please provide a detailed explanation for the \$11.9 million over budget amount of the Chef Financial Officer for the test year. Your explanation should include the items that were not included in the budget, the amount of each item, and the reason for exclusion from the budgeted amount.

Response No. Staff 5-51:

The AEPSC umbrella trust impact is very difficult to estimate, mainly due to the fact that the AEPSC umbrella trust fluctuates based on the value of the investments included in it (see Staff 5-53 for further explanation of the AEPSC umbrella trust). AEPSC tried budgeting for it in 2019 and the test year as it has a big impact to AEPSC's costs. In the test year, the actual impact to total AEPSC for the umbrella trust was a credit of approximately \$(4.9) million. The estimated impact in the budget was a credit of approximately \$(24) million, for a difference of approximately \$(19) million.

Prepared By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Brian J. Frantz

Title: Dir Accounting

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-52:

Please provide the AEPSC Chief Financial Officer affiliate charges to SWEPCO by FERC account for each month January 2017 through the present. Provide a detailed explanation and justification for the large increase in the test year over calendar year 2019.

Response No. Staff 5-52:

Please refer to Staff 5-52 Attachment 1, provided electronically on the PUC Interchange, for AEPSC Chief Financial Officer affiliate charges billed (to cost of service accounts) to SWEPCO by FERC Account for each month of January 2017 through September 2020.

The reason for the large increase in the test year over calendar year 2019 is due to the change in the value of the AEPSC Umbrella Trust. In calendar year 2019, this change was a credit of approximately \$(31.5M) compared to a credit of approximately \$(4.9M), which represents approximately \$26.6M of the difference between calendar year 2019 and the test year.

Prepared By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Brian J. Frantz

Title: Dir Accounting

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-53:

Please refer to Exhibit BJF-19, page 16. Please provide a detailed explanation of the adjustment to normalize the AEPSC umbrella trust. Is this an actual cash expenditure or merely a book adjustment to the value of the trust?

Response No. Staff 5-53:

The AEPSC umbrella trust relates to insurance policies on primarily former employees of AEPSC. These policies have a cash surrender value associated with them. This cash surrender value fluctuates from month to month, and an entry is recorded to AEPSC's general ledger to reflect this change in cash surrender value. Due to the volatility of this change in cash surrender value, SWEPCO used a five year average of the change in cash surrender value billed to SWEPCO by AEPSC to determine the adjustment to normalize the overall credit to SWEPCO's cost of service. In the test year, SWEPCO was billed a credit of \$(673,237) from AEPSC related to the umbrella trust. Upon further examination of the adjustment calculation, there was an error in the calculation. The 5 year average for the umbrella trust should have been \$(792,407), which then would change SWEPCO's proforma adjustment from \$368,465 to \$(119,170), a change of \$(487,635). Using the Texas retail % of 37.0861%, this change would have a \$(180,845) impact to SWEPCO Texas. Please also note that this 5 year average methodology for the AEPSC umbrella trust is consistent with past treatment of this change in value in the case of SWEPCO's affiliate, AEP Texas Inc., Docket No. 49494.

Prepared By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Brian J. Frantz

Title: Dir Accounting

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-54:

Refer to the testimony of Thomas P. Brice at page 6, lines 16 through 18 and the testimony of Monte A. McMahon at page 35, line 7. What were the force majeure events in 2017 and 2018 that caused forced outages at Dolet Hills? Your answer should include a detailed explanation of each event as well as a discussion of how the events led to the decision to retire the plant.

Response No. Staff 5-54:

Shortly after transitioning mining operations to the Oxbow mine in 2017, Tropical Storm Cindy hit the area. This storm negatively affected mining operations in the T area of the Oxbow mine, and it slowed the development of the Oxbow mine's U area. Conditions deteriorated to the point that a Miner Force Majeure was declared on August 18, 2017. Before normal mining operations could resume, Hurricane Harvey crossed over the Oxbow mine from August 29 to August 31, 2017. Heavy rainfall caused flooding in the mine and around the mine area. Mining operations were suspended while efforts focused on pumping the floodwaters from the mining pits. The Miner Force Majeure was terminated on December 18, 2017. During the Miner Force Majeure, lignite reserves at the Dolet Hills plant were sufficient to sustain operation of the unit until August 23, 2017, when a forced outage was initiated. The unit outage lasted through December 19, 2017.

On March 1, 2018, the Oxbow mine once again declared a Miner Force Majeure. Excessive rainfall occurred February 21 through February 25 hindering the production and delivery of lignite to the Dolet Hills plant. The Miner Force Majeure was terminated on April 14, 2018. During the Miner Force Majeure, the lignite inventory at the Dolet Hills plant was also severely impacted by excessive rain, causing excessive pluggage in the fuel delivery system to the unit. The Dolet Hills plant entered a forced outage on February 26, 2018, as a result of wet fuel preventing operation of the unit. The force majeure events were not related to the useful life of the Dolet Hills plant or the mining operations. In 2019, SWEPCO reduced operations to offset increases in lignite production costs and later determined the economically recoverable lignite reserves were depleted.

Prepared By: Tara D. Beske

Title: Regulatory Consultant Staff

Prepared By: Christopher N. Martel

Title: Regulatory Consultant Sr

Sponsored By: Thomas P. Brice

Title: VP Regulatory & Finance

Sponsored By: Monte A. McMahon

Title: VP Generating Assets SWEPCO

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-55:

Refer to the testimony of Thomas P Brice at page 6, line 21 through page 7, line 2. Please provide a copy of the workpaper (or provide the Bates page number or other reference to location in RFP) that shows the calculation of the estimated \$180 million in potential fuel savings related to retirement of the Dolet Hills plant. If the workpaper does not show estimated savings by year, please provide such information.

Response No. Staff 5-55:

Please refer to the response provided for OPUC 1-11.

Prepared By: Christopher N. Martel

Title: Regulatory Consultant Sr

Sponsored By: Thomas P. Brice

Title: VP Regulatory & Finance

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION

Question No. Staff 5-56:

Have any of the \$180 million in estimated fuel savings been reflected in the Company's request in this proceeding or in the ongoing fuel reconciliation, Docket No. 50997? If so, identify the amounts and where they are reflected and if not, why not?

Response No. Staff 5-56:

No, none of the estimated savings have been reflected in either this proceeding or Docket No. 50997. The ongoing fuel reconciliation, Docket No. 50997, goes through December 2019 while this proceeding is based on a historic test year. The estimated savings in question would not begin to be realized until 2022, after both of these proceedings have been completed.

Prepared By: Christopher N. Martel

Title: Regulatory Consultant Sr

Sponsored By: Thomas P. Brice

Title: VP Regulatory & Finance

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION

Question No. Staff 5-57:

Does SWEPCO directly incur costs such as payroll, operations and maintenance, insurance, ad valorem and other taxes related to the operation of Dolet Hills or is the Company billed for such items by Cleco? Please provide a detailed discussion and explanation for how SWEPCO is billed and pays for its share of costs related to Dolet Hills and provide all test year amounts, adjustments to test year, and requested amounts by FERC account related to the Dolet Hills plant. The information should be presented separately by SWEPCO's directly incurred costs and those billed to SWEPCO by Cleco.

Response No. Staff 5-57:

SWEPCO does not directly incur O&M costs related to the operation of the Dolet Hills power plant. Those costs are billed by Cleco. The Dolet Hills Operating Agreement, provided in the response to CARD 1-2 (HIGHLY SENSITIVE Attachment 1) governs the billings from CLECO to SWEPCO and then the billings from SWEPCO to Northeast Texas Electric Cooperative, Inc. (NTEC) and Oklahoma Municipal Power Authority (OMPA). Basically, CLECO bills SWEPCO 50% of the O&M for Dolet Hills and then SWEPCO bills NTEC 5.86% and OMPA 3.906% for their ownership share. Thus, after all billings, SWEPCO's books reflect its ownership share (40.234%) of Dolet Hills O&M billed by CLECO. SWEPCO incurs its own ad valorem taxes for the Dolet Hills power plant. Please see the response to Staff 5-9 for the amount of property taxes associated with Dolet Hills. Total Dolet Hills O&M, including an allocation of SWEPCO production costs not directly incurred by the plant, is provided on Schedule H-1.2(c). Please see Staff 5-57 Attachment 1 for a break-out of the costs between those billed by Cleco, including property insurance, and the allocated other SWEPCO production costs.

Prepared By: Frances K. Bourland

Title: Regulatory Acctg Case Mgr

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Prepared By: Christopher N. Martel

Title: Regulatory Consultant Sr

Sponsored By: Thomas P. Brice

Title: VP Regulatory & Finance

SOUTHWESTERN ELECTRIC POWER COMPANY
Dolet Hills Expense
For the Test Year Ending March 31, 2020

FERC	Description	Total Test Year Costs	Cleco billings	Allocation of Non-plant Specific Costs
<u>Steam Power Generation - Operation</u>				
5000	Oper Supervision & Engineering	1,000,513 28	582,587 11	417,926 17
5020	Steam Expenses	1,357,843 58	1,358,017 16	(173 58)
5050	Electric Expenses	483,234 10	483,380 20	(146 10)
5060	Misc Steam Power Expenses	3,807,765 88	3,714,591 69	93,174 20
5070	Rents	634 42		634 42
		<u>6,649,991 25</u>	<u>6,138,576 15</u>	<u>511,415 11</u>
<u>Steam Power Generation - Maintenance</u>				
5100	Maint Supv & Engineering	394,249 24	367,798 93	26,450 31
5110	Maintenance of Structures	200,177 01	199,917 59	259 42
5120	Maintenance of Boiler Plant	3,947,060 62	3,940,951 84	6,108 78
5130	Maintenance of Electric Plant	174,758 38	175,336 44	(578 06)
5140	Maintenance of Misc Steam Pit	1,100,713 22	1,099,916 85	796 37
		<u>5,816,958 45</u>	<u>5,783,921 64</u>	<u>33,036 81</u>
<u>Other Power Generation - Operation</u>				
5480	Generation Expenses	(3 02)		(3 02)
5490	Misc Other Pwr Generation Exp	3 38		3 38
		<u>0 36</u>	<u>-</u>	<u>0 36</u>
<u>Other Power Generation - Maintenance</u>				
5510	Maint Supv & Engineering	(1 07)		(1 07)
5530	Maintenance of Generating Pit	(7 15)		(7 15)
		<u>(8 22)</u>	<u>-</u>	<u>(8 22)</u>
Total Production O&M (excluding Fuel and Purchased Power)		<u>12,466,941 85</u>	<u>11,922,497 79</u>	<u>544,444 07</u>
9240	Property Insurance	<u>442,574 00</u>	<u>442,574 00</u>	<u>-</u>
Total Expense		<u>12,909,515 85</u>	<u>12,365,071 79</u>	<u>544,444 07</u>

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-58:

Refer to the testimony of Thomas P. Brice at page 7, lines 7 through 11. What is Mr. Brice's understanding of the "standard regulatory practice" with respect to recovery of retired plant? Reconcile this understanding with the Commission's regulatory treatment with respect to the retirement of Welsh Unit 2 in Docket No. 46449. Does SWEPCO's proposed treatment of Dolet Hills in this proceeding result in the Company earning a return on the remaining adjusted undepreciated balance?

Response No. Staff 5-58:

The reference to "standard regulatory practice" on page 7, lines 7-11 of Mr. Brice's testimony refers to the depreciation of plant – specifically the depreciation of SWEPCO's investment in the Dolet Hills plant. It is Mr. Brice's understanding that it is standard regulatory practice to depreciate invested capital and cost of removal, less salvage value, over the expected life of the applicable property.

The cited passage of Mr. Brice's testimony does not address retired plant, as the Dolet Hills plant is not retired and is expected to continue providing service to customers into 2021. As explained on pages 7-8 of Mr. Brice's testimony, in order to mitigate the rate impact of depreciating the Dolet Hills plant over its remaining life, it is SWEPCO's proposal to offset the remaining undepreciated value of the Dolet Hills plant with the balance of the unprotected excess ADIT and the refund provision associated with the protected excess ADIT. This excess ADIT will not fully offset the undepreciated value of the Dolet Hills plant. The increment that is not offset will remain in SWEPCO's rate base and will earn a Commission-authorized return.

Prepared By: Christopher N. Martel

Title: Regulatory Consultant Sr

Sponsored By: Thomas P. Brice

Title: VP Regulatory & Finance

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-59:

Refer to W/P B-1.5.17 (Dolet ADFIT Off-set). Provide a detailed explanation and justification for inclusion of the \$29,763,258 amount in column J described as Account 1080161. Include all journal entries (with detailed explanations) to record this amount on SWEPCO's books. Also provide a detailed reconciliation to the \$9,125,930 amount for Account 1080161 recorded at test year end on SWEPCO's trial balance as shown at Schedule A-4.

Response No. Staff 5-59:

Inclusion of the \$29,763,258 is required to recognize commission approved depreciation rates and excluding this balance would overstate accumulated depreciation. As required by GAAP, SWEPCO is depreciating Dolet Hills over its useful life through 2021 which increases accumulated depreciation in Account 1080001 for SEC financial reporting. Because SWEPCO has not received Commission approval for these accelerated depreciation rates, it records an off-setting entry to Account 1080161. Thus, when you combine the balances in these Accounts the result is an accumulated depreciation based on Commission approved rates. Please see Staff 5-59 Attachment 1 for the life to date journal entries to this account. W/P B-1.5.17 is supported by Exhibit MAB-4 and utilizes an estimated Dolet Hills balance on the estimated date rates from this case will be effective. This calculation on Exhibit MAB-4 started with the latest actual value at that time which was June 2020. Thus, the \$29,763,258 is the June 2020 value which is supported by Staff 5-59 Attachment 1.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Unit	Period	Year	Account	Dept	Amount	Journal ID	Status	DateTime	Date	Source	User	Ref	Ref No	Line Descr
168	1	2,020	1080161	99990	1,111,271.18	OAASEPDHGS	P	2020-02-07-14.45.01.421910	2020-01-31	ONL	S233670		NONREC	DH GAAP Depreciation
168	2	2,020	1080161	99990	1,138,154.94	OAASEPDHGS	P	2020-03-05-18.26.48.116787	2020-02-28	ONL	S233670		REC	DH GAAP Depreciation
168	3	2,020	1080161	99990	6,876,504.26	OAASEPDHGS	P	2020-04-04-19.44.14.259683	2020-03-31	ONL	S233670		REC	DH GAAP Depreciation
168	4	2,020	1080161	99990	6,875,045.59	OAASEPDHGS	P	2020-05-07-11.42.38.363757	2020-04-30	ONL	S233670		REC	DH GAAP Depreciation
168	5	2,020	1080161	99990	6,875,292.39	OAASEPDHGS	P	2020-06-05-09.51.13.978579	2020-05-31	ONL	S233670		REC	DH GAAP Depreciation
168	6	2,020	1080161	99990	6,886,989.66	OAASEPDHGS	P	2020-07-05-23.52.36.312283	2020-06-30	ONL	S233670		REC	DH GAAP Depreciation
168	7	2,020	1080161	99990	6,887,132.60	OAASEPDHGS	P	2020-08-06-18.38.54.093564	2020-07-31	ONL	S310379		REC	DH GAAP Depreciation
168	8	2,020	1080161	99990	6,887,655.69	OAASEPDHGS	P	2020-09-08-10.01.23.410021	2020-08-31	ONL	S310379		REC	DH GAAP Depreciation
168	9	2,020	1080161	99990	6,887,811.39	OAASEPDHGS	P	2020-09-23-10.40.54.704069	2020-09-30	ONL	S310379		REC	DH GAAP Depreciation

Total 50,425,857.70

Total Through June 29,763,258.02

**Dolet Hills GAAP depreciation - Add to NBV reports for management

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION

Question No. Staff 5-60:

How does the investment in Oxbow requested in rate base on Schedule B-1 relate to the Dolet Hills plant? Once Dolet Hills is retired, will Oxbow be used and useful in the provision of electric service by SWEPCO? Please provide a detailed explanation.

Response No. Staff 5-60:

The Oxbow investment is lignite reserves used to provide lignite to the Dolet Hills power plant. Once the Dolet Hills power plant is retired, which will occur after rates from this case are implemented, Oxbow will not be used in the provision of electric service by SWEPCO.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-61:

Refer to the testimony of Michael A. Baird at page 37, lines 1-8. Please provide a detailed explanation of the calculation of the \$1,418,666 of DHLC equity return and related taxes included in the requested base revenue requirement and identify where both are included in SWEPCO's request by schedule number, line number, and FERC account number. Please also provide citations to orders (including specific findings of fact) from Docket Nos. 40443 and 46449 related to inclusion of this equity return in base rates.

Response No. Staff 5-61:

In accordance with the DHLC Lignite Mining agreement the equity return is "based upon the Initial Capitalization of Miner and any added amounts approved by the Executive Committee to be financed by Miner through Miner's Loans and Leases or equity contributed to Miner by member(s). The amount of equity contributed by Miner's member(s) shall not exceed 30% of the total capitalization of Miner, or such other amount approved by the LPSC from time to time. The rate of return on equity contributed by SWEPCO or any Affiliate of SWEPCO shall be the LPSC authorized return on equity in the most recent SWEPCO rate case." Related taxes are income taxes associated with this equity return. As noted in the Direct Testimony of Teresa J. Kraske, page 13, lines 6 - 9, in Docket No. 50997 (SWEPCO's on-going fuel reconciliation), in the Stipulation in Docket No. 28045, SWEPCO agree that the equity component of the charges for lignite supplied by the DHLC would be removed from eligible fuel expense. Consistent with that Stipulation SWEPCO has excluded this cost from fuel and included this cost in base rates, including Docket Nos. 40443, 46449 and in this case. The DHLC equity return is included in fuel expense Account 501 and included in Schedule A, Line 3 (detail by FERC Account is provided in WP-A). Please see Finding of Fact 153 in Docket No. 40443. The Order in Docket No. 46449 does not contain a similar finding. However, as explained in the Direct Testimony of Randall W. Hamlett in Docket No. 46449 (page 33, lines 12 - 19), SWEPCO did include the DHLC equity return and related taxes in that filing in compliance with 16 TAC § 23.236(a)(1). No party objected to that treatment.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-62:

Once Dolet Hills is retired, what will happen to SWEPCO's equity investment in Dolet Hills Lignite Company?

Response No. Staff 5-62:

Dolet Hills Lignite Company ("DHLC") will eventually return the capital to SWEPCO once all lignite is delivered, DHLC's debts are paid as due and it is determined that DHLC has sufficient cash on hand to pay for all remaining reclamation activities.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Thomas P. Brice

Title: VP Regulatory & Finance

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-63:

Refer to Schedule G-14, Regulatory Commission Expense and Schedule A-4, Detail Trial Balance for the Test Year Ended March 31, 2020. Please reconcile the total test year amount of \$2,497,184 shown on Schedule G-14, Regulatory Commission Expense, with the amount of \$2,624,761 shown for account 9280, Regulatory Commission Expense, on Schedule A-4.

Response No. Staff 5-63:

Please see Staff 5-63 Attachment 1 Regulatory Expenses for a reconciliation of the total test year amounts as shown on Schedule G-14 to the 9280 balance as shown on Schedule A-4. Certain accounts were inadvertently excluded from Schedule G-14. An additional \$46,306 should have been removed from the Company's total request for FERC 9280.

Prepared By: Tiffany A. Powell Day

Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

SOUTHWESTERN ELECTRIC POWER COMPANY
Regulatory Commission Expense
For the Test Year Ended March 31, 2020

SOAH Docket No 473-21-0538
PUC Docket No 51415
Staff's 5th, Q # STAFF 5-63
Attachment 1
Page 1 of 2

Line No	(1) Description	(2) Docket No	(3) Test Year Amount	(4) Company Adjustments	(5) Company Request
1	Proceedings - Account 9280002				
2	SWEPKO TX 2012 Base Rate Case	Docket No 40443	47	(47)	-
3	SWEPKO TX 2012 Base Rate Case (AEPSC)		742	(742)	-
4	SWEPKO TX 2016 Base Rate Case	Docket No 46449	(34,694)	34,694	-
5	SWEPKO TX 2016 Base Rate Case (AEPSC)		1,119	(1,119)	-
6	SWEPKO TX 2018 Rate Case Expense Recovery Filing	Docket No 47141	(30,608)	30,608	-
7	SWEPKO TX 2018 Rate Case Expense Recovery Filing (AEPSC)		32,966	(32,966)	-
8	SWEPKO TX 2020 Base Rate Case	TBD	9,828	-	9,828
9	SWEPKO TX - Rate Case Expense Amortization		350,801	(350,801)	-
10	SWEPKO TX 2018 DCRF Filing	Docket No 49041	45,533	(39,377)	6,156
11	SWEPKO TX 2018 TCRF Filing	Docket No 49042	94,220	(70,011)	24,208
12	SWEPKO TX 2020 GCRG Rule Making		1,999	(1,999)	-
13	SWEPKO TX EECRF	Docket Nos 49499/50805	647	-	647
14	SWEPKO TX EECRF (AEPSC)		6,896	(6,896)	-
15	SWEPKO TX 2017 Fuel Factor Filing		4,985	(4,741)	244
16	SWEPKO TX Fuel Refund Filing	Docket No 49974	45,067	(30,356)	14,711
17	SWEPKO TX Fuel Refund Filing (AEPSC)		6	(6)	-
18	SWEPKO TX 2020 Fuel Reconciliation Filing	Docket No 50997	73,141	(13,101)	60,040
19	SWEPKO TX Tax Filing	Docket No 48233	100	(100)	-
20	SWEPKO TX Tax Filing (AEPSC)		286	(286)	-
21	Texas Misc Legislative & Regulatory		(12,270)	67,974	55,704
22	Louisiana 2019 IRP Filing		13,069	(13,069)	-
23	Louisiana 2019 IRP Filing (AEPSC)		254,470	(254,470)	-
24	Louisiana Misc Legislative & Regulatory		167,977	(167,977)	-
25	Louisiana Base Rate Case Filing		16,900	(16,900)	-
26	Louisiana Base Rate Case Filing (AEPSC)		12,015	(12,015)	-
27	Arkansas Base Rate Case Filing	Docket No 19-008-U	166,889	(166,889)	-
28	Arkansas Base Rate Case Filing (AEPSC)		1,182,815	(1,182,815)	-
29	Arkansas Misc Legislative & Regulatory		10,977	(10,977)	-
30	Arkansas Misc Legislative & Regulatory (AEPSC)		8,533	(8,533)	-
31	Miscellaneous Regulatory Expense		4,754	(4,754)	-
32	Miscellaneous Regulatory Expense (AEPSC)		67,974	(67,974)	-
33	Total- Account 9280002		2,497,184	(2,325,646)	171,538
34	SWEPKO Direct - proforma adj A-3 19		\$ 929,361	\$ (757,823)	\$ 171,538
35	AEPSC proforma adjustment A-3 18 (Work Order Adj Only)		1,567,823	(1,567,823)	-
36	Total Account 9280002		\$ 2,497,184	\$ (2,325,646)	\$ 171,538

Other Accounts (9280000, 9280001, 9280003, 9280005)					
Line			Test Year	Company	Company
No	Description	Docket No	Amount	Adjustment as Corrected	Request as Corrected
37	Arkansas Base Rate Case Amortization	Docket No 19-008-U	39,029	(39,029)	-
38	Misc FERC Regulatory Expense		38,196	-	38,196
39	Misc Other Jurisdictions (OH, OK, VA, WV)		15,471	(15,471)	-
40	Texas FERC Fees		43,075	-	43,075
41	Deferral of PUCT Expenses Per PURA Sec 39 504		(8,194)	8,194	-
			127,578	(46,306)	81,271
42	Total FERC Account 9280		\$ 2,624,761	\$ (2,371,952)	\$ 252,810

SOAH Docket No 473-21-0538
PUC Docket No 51415
Staff's 5th, Q # STAFF 5-63
Attachment 1
Page 2 of 2

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-64:

Given that the Commission's order in Docket No. 46449 was issued on March 19, 2018, please provide a detailed explanation and justification for why a full year of amortization of the Welsh Unit 2 regulatory asset was not recorded on the books of SWEPCO for the test year ending March 31, 2020.

Response No. Staff 5-64:

The reason to adjust the Welsh Unit 2 regulatory asset does not relate to the timing of the Commission's order in Docket 46449 and the end of the test year. The reason for the increase is because SWEPCO was not allowed to set up the regulatory asset on its GAAP books at the level approved by the Commission due to Accounting Standard Codification (ASC) 980-360-35-1 and 980-340-35-1. Because the Commission did not allow a return on this regulatory asset, SWEPCO had to write-off a portion of Welsh Unit 2 to comply with GAAP. Thus, the amount of amortization on SWEPCO's books is less than the \$3,142,658 allowed by the Commission due to the lower regulatory asset value. Adjustment A-3.8 simply increases the lower per book amount, due to the write-off, to the value approved by the Commission and included in the Docket No. 46449 number runs.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-65:

Please provide a detailed description of all intangible assets as well as the original cost, the amortization period, the test year amount of amortization expense, adjustments to the test year amortization expense, and the requested amortization expense for each stated separately.

Response No. Staff 5-65:

Please see Staff 5-65 Attachment 1.xlsx for a description of all intangible assets as well as the original cost, the amortization period, the test year amount of amortization expense, adjustments to the test year amortization expense, and the requested amortization expense for each stated separately.

Prepared By: Jason A. Cash

Title: Accounting Sr Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

Sponsored By: Jason A. Cash

Title: Accounting Sr Mgr

Utility Account	Asset Location/Description	Total	Test Year Amortization Expense	Amortization Period	Amort Rate	Calculated Amount	Adjustment Amount
30100 - Organization Costs	Louisiana General Plant Equipment (except Land & Buildings) : SEP : LAGEN	\$12,201.82	\$0.00	0 Years	0.0000%	\$0.00	\$0.00
30300 - Intangible Property	Capitalized Software - Cloud : SEP : 9303CLD	\$456,929.04	\$8,723.23	5 Years	17.0696%	\$77,995.75	\$69,272.52
30300 - Intangible Property	Capitalized Software - Dell : SEP : 9303DELL	\$2,687,748.53	\$537,549.84	5 Years	17.0696%	\$458,786.72	(\$78,763.17)
30300 - Intangible Property	Capitalized Software - High Availability Data Center : SEP : 9303HAV	\$5,360,897.35	\$1,072,179.36	5 Years	17.0696%	\$915,081.33	(\$157,098.03)
30300 - Intangible Property	Capitalized Software Fully Depreciated : SEP.: 9303FD	\$10,871,694.73	\$0.00	0 Years	17.0696%	\$1,855,749.93	\$1,855,749.93
30300 - Intangible Property	Capitalized Software, TX : SEP : 9303TX	\$18,679,691.35	\$4,089,740.07	5 Years	17.0696%	\$3,188,540.22	(\$901,199.85)
30300 - Intangible Property	Capitalized Software-SEP GENERAL	\$63,496,389.51	\$10,116,709.43	5 Years	17.0696%	\$10,838,551.22	\$721,841.79
30300 - Intangible Property	Flint Creek Generating Plant : SEP : PPFLC	\$764,476.93	\$29,628.60	5 Years	17.0696%	\$130,492.81	\$100,864.21
30300 - Intangible Property	HCP and NEPA Study for American Burying Beetle (ABB) : SEP : ABBAR	\$61,818.93	\$2,166.72	5 Years	17.0696%	\$10,552.22	\$8,385.50
30300 - Intangible Property	HCP and NEPA Study for American Burying Beetle (ABB) : SEP : ABBTX	\$37,958.53	\$1,165.92	5 Years	17.0696%	\$6,479.35	\$5,313.43
30300 - Intangible Property	Mattison Interconnect : SEP : HDMINTC	\$523,300.91	\$4,466.53	5 Years	17.0696%	\$89,325.14	\$84,858.61
30300 - Intangible Property	Stall Interconnect : SEP : PPSTAINTC	\$202,867.49	(\$37,193.90)	5 Years	17.0696%	\$34,628.58	\$71,822.48
30300 - Intangible Property	Welsh Generating Plant : SEP : PPWSH	\$337,027.84	\$49,778.21	5 Years	17.0696%	\$57,529.15	\$7,750.94
30300 - Intangible Property	Capitalized Software - Oracle : SEP : 9303ORA	\$12,638,903.77	\$1,264,025.22	10 Years	17.0696%	\$2,157,404.65	\$893,379.43
30300 - Intangible Property	Capitalized Software - Maximo : SEP : 9303MAX	\$16,948,195.48	\$281,834.94	15 Years	17.0696%	\$2,892,981.57	\$2,611,146.63
		\$133,080,102.21	\$17,420,774.17			\$22,714,098.64	\$5,293,324.47

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S FIFTH REQUEST FOR INFORMATION**

Question No. Staff 5-66:

Are there any amounts in SWEPCO's requested invested capital or revenue requirement related to the Knox Lee, Lieberman, or Lone Star plants? If so, please identify the amounts by schedule number and line number.

Response No. Staff 5-66:

Yes. The net book value for the requested plants is a component of Net Electric Plant In Service provided on Schedule B-1, line 3. See Staff 5-66 Attachment 1 for the net book values of the requested plants as of March 31, 2020. These values have not been adjusted to reflect PUCT approved depreciation rates or jurisdictional AFUDC rates which are not maintained at the plant level. Additionally, O&M data by plant is provided on schedule H-1.2. Because most O&M adjustments are not made at the plant level, these O&M amounts do not reflect any O&M adjustments made in the case. As discussed in the Direct Testimony of Mike Baird, page 24, lines 17 - 20, SWEPCO did reduce O&M related to the units retired at these plants. Generation expenses not directly incurred by plant have been allocated on the basis of direct amounts incurred by FERC account.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

major_location	utility_account	month	book_cost	allocated_reserve	net_book_value
Knox Lee Generating Plant	31030 - Land - Oil/Gas	03/2020	\$102,781.04	\$0.00	\$102,781.04
Knox Lee Generating Plant	31130 - Struct, Improvemnts-Oil/Gas	03/2020	\$9,077,082.69	\$7,978,706.61	\$1,098,376.08
Knox Lee Generating Plant	31230 - Boiler Plant Equip-Oil/Gas	03/2020	\$865,046.63	\$1,125,586.60	(\$260,539.97)
Knox Lee Generating Plant	31230 - Boiler Plant Equip-Oil/Gas	03/2020	\$31,908,236.52	\$27,100,064.70	\$4,808,171.82
Knox Lee Generating Plant	31430 - Turbogenator Units-Oil/Gas	03/2020	\$18,087,784.23	\$14,904,986.06	\$3,182,798.17
Knox Lee Generating Plant	31530 - Accssry Elect Equip-Oil/Gas	03/2020	\$4,671,832.42	\$2,940,091.71	\$1,731,740.71
Knox Lee Generating Plant	31630 - Misc Pwr Plt Equip-Oil/Gas	03/2020	\$2,053,745.20	\$1,786,104.62	\$267,640.58
Knox Lee Generating Plant	31730 - ARO Steam Prod Plnt Oil/Gas	03/2020	\$3,294,854.12	\$622,054.25	\$2,672,799.87
			\$70,061,362.85	\$56,457,594.55	\$13,603,768.30
Lieberman Generating Plant	31030 - Land - Oil/Gas	03/2020	\$24,026.38	\$0.00	\$24,026.38
Lieberman Generating Plant	31130 - Struct, Improvemnts-Oil/Gas	03/2020	\$5,407,423.32	\$3,839,832.72	\$1,567,590.60
Lieberman Generating Plant	31230 - Boiler Plant Equip-Oil/Gas	03/2020	\$20,004,081.09	\$17,796,004.25	\$2,208,076.84
Lieberman Generating Plant	31430 - Turbogenator Units-Oil/Gas	03/2020	\$11,758,614.06	\$11,113,821.27	\$644,792.79
Lieberman Generating Plant	31530 - Accssry Elect Equip-Oil/Gas	03/2020	\$3,471,047.38	\$2,395,140.14	\$1,075,907.24
Lieberman Generating Plant	31630 - Misc Pwr Plt Equip-Oil/Gas	03/2020	\$2,320,379.96	\$1,939,178.61	\$381,201.35
Lieberman Generating Plant	31730 - ARO Steam Prod Plnt Oil/Gas	03/2020	\$1,263,344.24	\$933,738.09	\$329,606.15
			\$44,248,916.43	\$38,017,715.08	\$6,231,201.35
Lone Star Generating Plant	31030 - Land - Oil/Gas	03/2020	\$58,486.72	\$0.00	\$58,486.72
Lone Star Generating Plant	31130 - Struct, Improvemnts-Oil/Gas	03/2020	\$934,757.43	\$934,038.74	\$718.69
Lone Star Generating Plant	31230 - Boiler Plant Equip-Oil/Gas	03/2020	\$4,155,251.25	\$3,531,162.94	\$624,088.31
Lone Star Generating Plant	31430 - Turbogenator Units-Oil/Gas	03/2020	\$2,586,137.30	\$2,491,921.57	\$94,215.73
Lone Star Generating Plant	31530 - Accssry Elect Equip-Oil/Gas	03/2020	\$879,416.72	\$648,665.43	\$230,751.29
Lone Star Generating Plant	31630 - Misc Pwr Plt Equip-Oil/Gas	03/2020	\$201,388.92	\$142,309.74	\$59,079.18
Lone Star Generating Plant	31730 - ARO Steam Prod Plnt Oil/Gas	03/2020	\$123,591.52	\$123,591.52	\$0.00
			\$8,939,029.86	\$7,871,689.94	\$1,067,339.92